

UMSOBOMVU LOCAL MUNICIPALITY
INDEX TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012

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UMSOBOMVU LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS for the year ended 30 June 2012

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of Umsobomvu Local Municipality at 30 June 2012 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/2012 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2012 indicates an increase in Net Assets, and an increase in both Non-current Liabilities and Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increases in Retirement Benefit Liabilities and Long-service Benefits. The increase in Current Liabilities is primarily as a result of the increase in Creditors and Unspent Conditional Grants.

2. KEY FINANCIAL INDICATORS

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

Financial Statement Ratios:

| INDICATOR | 2012 | 2011 |
|-----------------------------------------------------------|-------------|-------------|
| Surplus / (Deficit) before Appropriations | 24,753,622 | 2,923,759 |
| Surplus / (Deficit) at the end of the Year | 458,561,482 | 433,807,860 |
| Expenditure Categories as a percentage of Total Expenses: | | |
| Employee Related Costs | 25.93% | 25.95% |
| Remuneration of Councillors | 2.30% | 2.30% |
| Collection Costs | 0.00% | 0.00% |
| Depreciation and Amortisation | 26.72% | 27.69% |
| Impairment Losses | 1.93% | 6.23% |
| Repairs and Maintenance | 2.30% | 2.52% |
| Interest Paid | 0.12% | 0.21% |
| Bulk Purchases | 13.44% | 11.41% |
| Contracted Services | 3.42% | 4.56% |
| Grants and Subsidies Paid | 0.00% | 0.00% |
| General Expenses | 23.46% | 19.14% |
| Current Ratio: | | |
| Creditors Days | 45 | 23 |
| Debtors Days | 203 | 148 |

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3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

The services offered by Umsobomvu Local Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2012 are as follows:

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income: | | | | | |
| Opening surplus / (deficit) | 433,614,516 | 329,101,504 | 31.76 | - | 100.00 |
| Operating income for the year | 129,695,503 | 99,431,645 | 30.44 | 72,988,205 | 77.69 |
| Appropriations for the year | - | - | - | - | - |
| | 563,310,019 | 428,533,149 | 31.45 | 72,988,205 | 671.78 |
| Expenditure: | | | | | |
| Operating expenditure for the year | 104,941,881 | 96,507,886 | 8.74 | 72,986,654 | 43.78 |
| Sundry transfers | - | (101,589,253) | (100.00) | - | - |
| Closing surplus / (deficit) | 458,368,138 | 433,614,516 | 5.71 | 1,551 | 29,552,971.45 |
| | 563,310,019 | 428,533,149 | 31.45 | 72,988,205 | 671.78 |
| | | | | | |

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income | 40,943,120 | 54,571,297 | (24.97) | 37,229,182 | 9.98 |
| Expenditure | 57,186,600 | 35,266,365 | 62.16 | 41,483,696 | 37.85 |
| Surplus / (Deficit) | (16,243,480) | 19,304,932 | (184.14) | (4,254,514) | 281.79 |
| Surplus / (Deficit) as % of total income | (39.67)% | 35.38% | | (11.43)% | |

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income | 3,080,688 | 1,619,834 | 90.19 | - | 100.00 |
| Expenditure | 2,076,733 | 2,003,998 | 3.63 | 423,660 | 390.19 |
| Surplus / (Deficit) | 1,003,955 | (384,164) | (361.34) | (423,660) | (336.97) |
| Surplus / (Deficit) as % of total income | 32.59% | (23.72)% | | (100.00)% | |

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3. OPERATING RESULTS (continued)

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income | 27,179,920 | 9,184,994 | 195.92 | 10,177,026 | 167.07 |
| Expenditure | 8,051,804 | 34,181,682 | (76.44) | 8,308,734 | (3.09) |
| Surplus / (Deficit) | 19,128,116 | (24,996,688) | (176.52) | 1,868,292 | 923.83 |
| Surplus / (Deficit) as % of total income | 70.38% | (272.15)% | | 18.36% | |

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R13,845,436 (2011: R10,810,525). Tariffs levied for electricity are subject to administered adjustments.

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income | 19,933,185 | 14,408,299 | 38.35 | 18,485,173 | 7.83 |
| Expenditure | 18,062,443 | 18,193,980 | (0.72) | 16,079,427 | 12.33 |
| Surplus / (Deficit) | 1,870,742 | (3,785,681) | (149.42) | 2,405,746 | (22.24) |
| Surplus / (Deficit) as % of total income | 9.39% | (26.27)% | | 13.01% | |

3.5 Water Services:

Water is bought in bulk from Lepelle Northern Water and "Uitloop Water Beleggings" and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R255,364 (2011: R200,488). Tariffs levied for water are subject to administered adjustments.

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|------------------------------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Income | 38,558,590 | 19,647,222 | 96.25 | 7,096,824 | 443.32 |
| Expenditure | 19,564,301 | 6,861,862 | 185.12 | 6,691,137 | 192.39 |
| Surplus / (Deficit) | 18,994,289 | 12,785,360 | 48.56 | 405,687 | 4,582.01 |
| Surplus / (Deficit) as % of total income | 49.26% | 65.07% | | 5.72% | |

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REPORT OF THE CHIEF FINANCIAL OFFICER

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R44,960,188 (2010/11: R27,338,954). Full details of Assets are disclosed in Notes 7, 8 and Appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R44,960,188 was financed as follows:

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Percentage Variance % | Budgeted 2011/12 R | Variance actual/ budgeted % |
|----------------------|------------------------|------------------------|-----------------------------|--------------------------|-----------------------------------|
| Grants and Subsidies | 45,033,406 | 1,035,278 | 4,249.88 | 85,000,000 | (47.02) |
| | 45,033,406 | 1,035,278 | 4,249.88 | 85,000,000 | (47.02) |
| | | | | | |

Source of funding as a percentage of Total Capital Expenditure:

| DETAILS | 2012 | 2011 |
|----------------------|---------|---------|
| Grants and Subsidies | 100.00% | 100.00% |
| | 100.00% | 100.00% |
| | | |

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

| DETAILS | 2012 | 2011 |
|---------------------------------------------------|--------------|--------------|
| <i>Variance per Category:</i> | | |
| Budgeted surplus before appropriations | 1,551 | 22,929,775 |
| Revenue variances | 56,707,298 | 10,301,055 |
| Expenditure variances: | | |
| Employee Related Costs | 470,009 | (627,882) |
| Remuneration of Councillors | (225,722) | 239,363 |
| Depreciation and Amortisation | (26,902,001) | (26,720,777) |
| Impairment Losses | 1,672,948 | (907,733) |
| Repairs and Maintenance | (71,790) | (2,428,633) |
| Interest Paid | 939,711 | 1,369,531 |
| Bulk Purchases | (702,951) | (391,793) |
| Contracted Services | (747,523) | (3,731,688) |
| General Expenses | (5,980,868) | 2,892,541 |
| Loss on disposal of Property, Plant and Equipment | (407,042) | - |
| Actual surplus before appropriations | 24,753,622 | 2,923,759 |
| | | |

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5. RECONCILIATION OF BUDGET TO ACTUAL (continued)

| DETAILS | 2012 | 2011 |
|----------------------------------------|-------------|--------------|
| <i>Variance per Service Segment:</i> | | |
| Budgeted surplus before appropriations | 1,551 | 22,929,775 |
| Executive and Council | 222,113 | (1,352,042) |
| Finance and Administration | (3,709,112) | 19,271,069 |
| Planning and Development | (5,112,413) | (2,594,906) |
| LED and IDP | (22,241) | - |
| Community and Social Services | (3,542,052) | (400,999) |
| Housing | 1,427,615 | (9,246) |
| Public Safety | 140,252 | 1,792,534 |
| Sport and Recreation | 34,487 | 72,261 |
| Waste Management | 17,259,824 | (26,260,071) |
| Water | 18,588,602 | (6,846,690) |
| Electricity | (535,004) | (9,538,964) |
| Actual surplus before appropriations | 24,753,622 | 2,923,759 |
| | | |

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a criptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

5.2 Capital Budget:

| DETAILS | Actual 2011/12 R | Actual 2010/11 R | Variance actual 2011/12 / 2010/11 R | Budgeted 2011/12 R | Variance actual/ budgeted R |
|-------------------------------|------------------------|------------------------|-------------------------------------------|--------------------------|-----------------------------------|
| Executive and Council | 476,731 | - | 476,731 | 409,000 | 67,731 |
| Finance and Administration | 117,003 | - | 117,003 | - | 117,003 |
| Planning and Development | 55,309 | - | 55,309 | - | 55,309 |
| Health | - | - | - | - | - |
| Community and Social Services | 365,234 | - | 365,234 | - | 365,234 |
| Housing | - | - | - | - | - |
| Public Safety | - | 22,572 | (22,572) | - | - |
| Sport and Recreation | - | - | - | - | - |
| Environmental Protection | - | - | - | - | - |
| Waste Management | 218,155 | - | 218,155 | 2,000,000 | (1,781,845) |
| Roads and Transport | 13,433,032 | - | 13,433,032 | 400,000 | 13,033,032 |
| Water | 2,398,036 | 27,432,198 | (25,034,163) | 46,519,750 | (44,121,714) |
| Electricity | 27,805,607 | 63,493 | 27,742,113 | 21,170,000 | 6,635,607 |
| Other | - | - | - | - | - |
| | 44,869,107 | 27,518,264 | 17,350,843 | 70,498,750 | (25,629,643) |
| | | | | | |

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6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2012 amounted to R458,561,482 (30 June 2011: R433,807,860) and is made up as follows:

| | |
|-----------------------------|--------------------|
| Capital Replacement Reserve | 193,344 |
| Accumulated Surplus | <u>458,368,138</u> |
| | <u>458,561,482</u> |

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The Capitalisation Reserve is utilised to offset the cost of depreciation of assets funded from Internal Advances (not applicable anymore) over the lifespan of such assets.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 18 and the Statement of Change in Net Assets for more detail.

7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2012 was R294,563 (30 June 2011: R546,014).

Refer to Note 15 and Appendix "A" for more detail.

8. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2012 was R6,980,619 (30 June 2011: R6,780,550).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 16 for more detail.

9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R13,148,710 as at 30 June 2012 (30 June 2011: R11,954,736) and is made up as follows:

| | |
|-------------------------------------------------|-------------------|
| Provision for Long-term Service | 1,050,699 |
| Provision for Rehabilitation of Land-fill Sites | <u>12,098,011</u> |
| | <u>13,148,710</u> |

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 17 for more detail.

UMSOBOMVU LOCAL MUNICIPALITY**ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2012****REPORT OF THE CHIEF FINANCIAL OFFICER****10. CURRENT LIABILITIES**

Current Liabilities amounted R43,695,795 as at 30 June 2012 (30 June 2011: R16,399,964) and is made up as follows:

| | | |
|------------------------------------------|---------|-------------------|
| Consumer Deposits | Note 11 | 606,488 |
| Payables | Note 12 | 12,873,461 |
| Unspent Conditional Grants and Receipts | Note 13 | 29,358,920 |
| VAT | Note 14 | 605,356 |
| Current Portion of Long-term Liabilities | Note 15 | 251,569 |
| | | <u>43,695,795</u> |

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R464,102,293 as at 30 June 2012 (30 June 2011: R447,658,558).

Refer to Note 7 and Appendices "B, C and E (1)" for more detail.

12. INTANGIBLE ASSETS

The net value of Intangible Assets were R255,970 as at 30 June 2012 (30 June 2011: R415,278).

These are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 and Appendix "B" for more detail.

13. INVESTMENT PROPERTIES

The net value of Investment Properties were R1,654,811 as at 30 June 2012 (30 June 2011: R238,159).

Refer to Note 9 and Appendix "B" for more detail.

14. CURRENT ASSETS

Current Assets amounted R56,668,094 as at 30 June 2012 (30 June 2011: R21,177,130) and is made up as follows:

| | | |
|--------------------------------------------|--------|-------------------|
| Inventories | Note 2 | 381,728 |
| Receivables from Exchange Transactions | Note 3 | 21,832,213 |
| Receivables from Non-exchange Transactions | Note 4 | 2,459,193 |
| Cash and Cash Equivalents | Note 5 | 31,994,961 |
| | | <u>56,668,094</u> |

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

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REPORT OF THE CHIEF FINANCIAL OFFICER

17. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 13 and 20, and Appendix "F" for more detail.

18. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 50.

19. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

30 August 2012

UMSOBOMVU LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

| Budget | | | Actual | |
|--------------------|--------------------|--------------------------------------------|--------------------|--------------------|
| 2012 Original | 2012 Adjusted | | 2012 | 2011 |
| R | R | Note | R | R |
| ASSETS | | | | |
| 32,500,000 | 40,318,817 | Current Assets | 56,668,094 | 21,177,130 |
| - | 37,899 | Inventories | 381,728 | 408,199 |
| 29,000,000 | 21,650,237 | Receivables from Exchange Transactions | 21,832,213 | 13,696,623 |
| - | 1,412,320 | Receivables from Non-exchange Transactions | 2,459,193 | 3,970,983 |
| 3,500,000 | 17,214,845 | VAT Receivable | - | 1,591,613 |
| - | 3,516 | Cash and Cash Equivalents | 31,994,961 | 1,506,197 |
| | | Current Portion of Long-term Receivables | - | 3,516 |
| 185,000,000 | 350,778,203 | Non-Current Assets | 466,013,074 | 448,311,995 |
| 185,000,000 | 350,773,103 | Property, Plant and Equipment | 464,102,293 | 447,658,558 |
| - | 5,100 | Intangible Assets | 255,970 | 415,278 |
| - | - | Investment Property | 1,654,811 | 238,159 |
| 217,500,000 | 391,097,020 | Total Assets | 522,681,168 | 469,489,125 |
| LIABILITIES | | | | |
| 4,150,000 | 40,823,684 | Current Liabilities | 43,695,795 | 16,399,964 |
| - | - | Consumer Deposits | 606,488 | 556,479 |
| 2,750,000 | 40,823,684 | Payables | 12,873,461 | 6,031,271 |
| - | - | Unspent Conditional Grants and Receipts | 29,358,920 | 8,481,275 |
| - | - | VAT Payable | 605,356 | - |
| 1,400,000 | - | Current Portion of Long-term Liabilities | 251,569 | 1,330,938 |
| 12,971,000 | 13,785,124 | Non-Current Liabilities | 20,423,892 | 19,281,301 |
| 5,621,000 | (670,032) | Long-term Liabilities | 294,563 | 546,014 |
| - | - | Retirement Benefit Liabilities | 6,980,619 | 6,780,550 |
| 7,350,000 | 14,455,156 | Non-current Provisions | 13,148,710 | 11,954,736 |
| 17,121,000 | 54,608,808 | Total Liabilities | 64,119,686 | 35,681,265 |
| 200,379,000 | 336,488,212 | Total Assets and Liabilities | 458,561,482 | 433,807,860 |
| 200,379,000 | 336,488,212 | NET ASSETS | 458,561,482 | 433,807,860 |
| 200,379,000 | 336,488,212 | Accumulated Surplus / (Deficit) | 458,561,482 | 433,807,860 |
| 200,379,000 | 336,488,212 | Total Net Assets | 458,561,482 | 433,807,860 |

UMSOBOMVU LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012

| Budget | | | | | Actual | |
|----------------------------------------|---------------|---------------|-----------------------------------------------------------|------|-------------|------------|
| 2011 | 2012 Original | 2012 Adjusted | | Note | 2012 | 2011 |
| R | R | R | | | R | R |
| REVENUE | | | | | | |
| Revenue from Non-exchange Transactions | | | | | | |
| 3,631,260 | 3,726,648 | 3,915,530 | Property Rates | 19 | 4,145,836 | 3,812,317 |
| 654,504 | 20,000 | 358,934 | Property Rates - Penalties imposed and collection charges | 23 | 284,987 | 558,582 |
| 2,008,281 | 2,103,900 | 1,877,040 | Fines | | 5,364,720 | 1,312,853 |
| 268,450 | 283,171 | 248,230 | Licences and Permits | | 435,146 | 373,256 |
| 49,356,478 | 29,445,250 | 29,445,250 | Government Grants and Subsidies Received | 20 | 75,234,791 | 57,434,590 |
| Revenue from Exchange Transactions | | | | | | |
| 31,644,855 | 35,452,951 | 35,416,141 | Service Charges | 21 | 35,052,648 | 30,077,689 |
| 37,962 | 100,538 | 138,112 | Rental of Facilities and Equipment | 22 | 379,062 | 407,712 |
| 34,000 | 50,929 | 18,395 | Interest Earned - External Investments | 23 | 419,278 | 55,847 |
| 1,494,800 | 942,836 | 1,405,503 | Interest Earned - Outstanding Debtors | 23 | 1,431,320 | 1,258,321 |
| - | 110,776 | 165,070 | Other Income | 24 | 5,531,064 | 4,140,478 |
| - | - | - | Other Gains and Losses | 33 | 1,416,652 | - |
| 89,130,590 | 72,236,999 | 72,988,205 | Total Revenue | | 129,695,503 | 99,431,645 |
| EXPENDITURE | | | | | | |
| 24,413,237 | 27,344,343 | 27,679,125 | Employee Related Costs | 25 | 27,209,116 | 25,041,119 |
| 2,457,040 | 2,634,268 | 2,187,344 | Remuneration of Councillors | 26 | 2,413,066 | 2,217,677 |
| - | 1,136,802 | 1,136,802 | Depreciation and Amortisation | 27 | 28,038,803 | 26,720,777 |
| 5,100,172 | 3,731,312 | 3,693,973 | Impairment Losses | 28 | 2,021,025 | 6,007,905 |
| - | 2,392,800 | 2,346,091 | Repairs and Maintenance | | 2,417,881 | 2,428,633 |
| 1,572,328 | 1,066,732 | 1,066,732 | Finance Costs | 29 | 127,021 | 202,797 |
| 10,619,220 | 13,397,849 | 13,397,849 | Bulk Purchases | 30 | 14,100,800 | 11,011,013 |
| 673,000 | 2,894,500 | 2,842,000 | Contracted Services | 31 | 3,589,523 | 4,404,688 |
| 21,365,818 | 17,638,393 | 18,636,738 | General Expenses | 32 | 24,617,606 | 18,473,277 |
| - | - | - | Loss on Disposal of Property, Plant and Equipment | | 407,042 | - |
| 66,200,815 | 72,236,999 | 72,986,654 | Total Expenditure | | 104,941,881 | 96,507,886 |
| 22,929,775 | - | 1,551 | SURPLUS / (DEFICIT) FOR THE YEAR | | 24,753,622 | 2,923,759 |

UMSOBOMVU LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012

| Description | Accumulated Surplus / (Deficit) Account | | Total for Accumulated Surplus/(Deficit) Account | Total |
|----------------------------------|-----------------------------------------|---------------------------------------|----------------------------------------------------------|--------------------|
| | Capital Replacement Reserve | Accumulated Surplus / (Deficit) | | |
| | R | R | R | R |
| 2011 | | | | |
| Balance at 30 June 2010 | 193,344 | 329,101,504 | 329,294,848 | 329,294,848 |
| Correction of Error (Note 34) | - | 101,589,253 | 101,589,253 | 101,589,253 |
| Restated Balance | 193,344 | 430,690,757 | 430,884,101 | 430,884,101 |
| Surplus / (Deficit) for the year | | 2,923,759 | 2,923,759 | 2,923,759 |
| Balance at 30 June 2011 | 193,344 | 433,614,516 | 433,807,860 | 433,807,860 |
| 2012 | | | | |
| Restated Balance | 193,344 | 433,614,516 | 433,807,860 | 433,807,860 |
| Surplus / (Deficit) for the year | | 24,753,622 | 24,753,622 | 24,753,622 |
| Balance at 30 June 2012 | 193,344 | 458,368,138 | 458,561,482 | 458,561,482 |
| | | | - | - |

UMSOBOMVU LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012

| | | Actual | |
|---------------------------------------------------------------|------|---------------------|---------------------|
| | Note | 2012 R | 2011 R |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from Ratepayers, Government and Other | | 155,875,812 | 90,474,395 |
| Cash paid to Suppliers and Employees | | 81,110,687 | 65,317,439 |
| Cash generated from / (utilised in) Operations | | 74,765,126 | 24,941,611 |
| Interest Received | 23 | 2,135,585 | 1,872,750 |
| Interest Paid | 29 | (127,021) | (202,797) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | | 76,773,690 | 26,611,564 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of Property, Plant and Equipment | 7 | (44,869,107) | (27,335,356) |
| Purchase of Intangible Assets | 8 | (91,081) | (3,598) |
| Proceeds on Disposal of Property, Plant and Equipment | | 2,567 | - |
| Decrease / (Increase) in Long-term Receivables | 10 | 3,516 | 5,720 |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (44,954,105) | (27,333,235) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of Borrowings | 15 | (1,330,820) | 290,818 |
| NET CASH FLOWS FROM FINANCING ACTIVITIES | | (1,330,820) | 290,818 |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 5 | 30,488,764 | (430,853) |
| Cash and Cash Equivalents at Beginning of Period | | 1,506,197 | 1,937,050 |
| Cash and Cash Equivalents at End of Period | | 31,994,961 | 1,506,197 |

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1. 2. 1 Revenue Recognition

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1. 2. 2 Financial Assets and Liabilities

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy 6.1 on *Financial Assets Classification* and Accounting Policy 6.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (continued)

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in IAS 32: *Financial Instruments - Presentation* and IAS 39: *Financial Instruments - Recognition and Measurement*.

1. 2. 3 Impairment of Financial Assets

Accounting Policy 6.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: *Financial Instruments - Recognition and Measurement*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors. The total decrease in estimation of the impairment of trade and other receivables from exchange transactions amounted to R305 619 and a increase of trade and other receivable from non exchange transactions to R 1 866 696.

1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4 and 5 the municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories

Accounting Policy 3.9 on *PPE - Impairment of Assets* and Accounting Policy 4.2 on *Intangible Assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: *Impairment of Cash generating Assets* and GRAP 26: *Impairment of non-Cash generating Assets*. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property plant and equipment amounted to R227 349, whilst no impairments were made to intangible assets or inventory.

1. 2. 6 Water inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir. Refer to Note 9 of the accounting policy notes to the Annual Financial Statements.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (continued)

1. 2. 7 Defined Benefit Plan Liabilities

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 5 and 6 to the Annual Financial Statements.

1. 2. 8 Provisions and Contingent Liabilities

Provision for Rehabilitation of Refuse Landfill Sites

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 5% (2010: 5.5%) and discounted to the present value:

- a) For landfill sites with a remaining operating life of less than 5 years, at the average short term borrowing cost of 11.14% (2010: 11.3475%).
- b) For landfill sites with a remaining operating life of greater than 5 years, at the average long-term treasury bond rate 4.09% (2010: 11.3475%).

1. 2. 9 Budget information

Deviations between budget and actual amounts are regarded as material differences when a 5% deviation exists. All material differences are explained in the notes to the annual financial statements.

1. 3 PRESENTATION CURRENCY

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

1. 4 GOING CONCERN ASSUMPTION

The Annual Financial Statements have been prepared on a going concern basis.

1. 5 OFFSETTING

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 20 Related Party Disclosures (Revised)
- GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 25 Employee Benefits - issued December 2009
- GRAP 26 Impairment of Cash-generating Assets - issued March 2009
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 104 Financial Instruments - issued October 2009
- GRAP 105 Transfers between entities under common control - issued November 2010
- GRAP 106 Transfers between entities not under common control - issued November 2010
- GRAP 107 Mergers - issued November 2010

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

1. BASIS OF PRESENTATION (continued)

The Minister of Finance announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26, GRAP 103 and GRAP 104 will be effective for period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. ACCUMULATED SURPLUS

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

2. 1 Other Reserves

The Entity creates and maintains reserves in terms of specific requirements.

2. 1. 1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.

Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT

3. 1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

3. 2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Infrastructure assets are stated at the depreciated replacement cost.

Subsequent to initial recognition, land and buildings are carried at a revalue amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed by external independent valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of Financial Position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalue amount of the asset.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT (continued)

Previously, land and buildings were carried at cost less accumulated depreciation and impairment losses. These changes are recorded as a change in accounting policy in the Statement of Financial Performance.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

When revalue assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

3. 3 Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalue amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

| | Years | | Years |
|-------------------------|---------|------------------------|---------|
| Infrastructure | | Buildings | 20 - 25 |
| Roads and Paving | 5 - 80 | | |
| Electricity | 10 - 50 | Other | |
| Water | 10 - 50 | Specialist Vehicles | 1 - 5 |
| Sewerage | 7 - 50 | Other Vehicles | 1 - 5 |
| Landfill Sites | 25 | Office Equipment | 3 - 7 |
| | | Furniture and Fittings | 7 - 10 |
| Community | | Plant and Equipment | 2 - 10 |
| Recreational Facilities | 20 - 25 | | |

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

3. 4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

3. 5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

3. PROPERTY, PLANT AND EQUIPMENT (continued)

3. 6 Land

Land is not depreciated as it is deemed to have an indefinite useful life.

3. 7 Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

3. 9 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

Transitional provisions

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2012 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3.

4. INTANGIBLE ASSETS

4. 1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / GRAP 26.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

4. INTANGIBLE ASSETS (continued)

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

4. 2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

After initial recognition, intangible assets are carried at a revalue amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. If the intangible asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to the revaluation surplus.

However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same intangible asset previously recognised in surplus or deficit.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

| | Years |
|--------------------------------|--------------|
| <i>Intangible asset</i> | |
| Software | 3 |

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

4. 3 Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

4. 4 Transitional provisions

Intangible assets recognised in terms of GRAP 102 have been presented for the financial year ended 30 June 2012 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

5. INVESTMENT PROPERTY

5. 1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc.; and
- Property held for strategic purposes or service delivery.

5. 2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation (30 June 2012). Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

5. INVESTMENT PROPERTY (continued)

5. 3 Derecognition

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

5. 4 Transitional Provisions

Investment properties recognised in terms of GRAP 16 have been presented for the financial year ended 30 June 2012 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3.

6. IMPAIRMENT OF ASSETS

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

6. 1 Impairment of Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset"

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalue amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

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6. IMPAIRMENT OF ASSETS (continued)

6. 2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalue asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalue asset is treated as a revaluation increase.

6. 3 Transitional provisions

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2012 (and applied retrospectively where practicable), and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3.

7. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

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7. FINANCIAL INSTRUMENTS (continued)

7. 1 Financial Assets - Classification

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with IAS 39.09 the Financial Assets of the municipality are classified as follows into the four categories allowed by this standard:

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Financial assets at fair value through profit or loss are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial assets at fair value through profit and loss

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

| Type of Financial Asset | Classification in terms of IAS 39.09 |
|---------------------------------------|---------------------------------------------|
| Short-term Investment Deposits – Call | Held-to-maturity investments |
| Bank Balances and Cash | Loans and receivables |
| Long-term Receivables | Loans and receivables |
| Consumer Debtors | Loans and receivables |
| Other Debtors | Loans and receivables |
| Investments in Fixed Deposits | Held-to-maturity investments |

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

7. 2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

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7. FINANCIAL INSTRUMENTS (continued)

| | |
|-------------------------------------------------|--------------------------------------------------------------------------------|
| ▪ Long-term Liabilities | Other financial liabilities (Financial liabilities measured at amortised cost) |
| ▪ Certain Other Creditors (see note 12) | Other financial liabilities (Financial liabilities measured at amortised cost) |
| ▪ Bank Overdraft | Other financial liabilities (Financial liabilities measured at amortised cost) |
| ▪ Consumer Deposits | Financial liabilities at fair value through profit and loss |

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Other financial liabilities (Financial liabilities measured at amortised cost)
- (iii) Financial guarantee contract

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities are classified as "Other financial liabilities" in accordance with IAS 39.09

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

7. 3 Initial and Subsequent Measurement

7. 3. 1 Financial Assets:

Held-to-maturity Investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial assets at fair value through profit or loss are initially and subsequently recognised at fair value and changes in fair value recognised directly through profit or loss.

Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to Municipality entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as loans and receivables.

Available-for-Sale Financial Assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

7. 3. 2 Financial Liabilities:

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

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7. FINANCIAL INSTRUMENTS (continued)

Financial Liabilities held at amortised cost

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

Financial guarantee contract

Financial guarantee contracts represent contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when they are contractually due.

Financial guarantee contract liabilities are initially measured at fair value.

The subsequent measurement of financial guarantee contracts is the higher of the amount determined in accordance with the policy on provisions as set out below, or the amount initially recognised less when appropriate cumulative amortisation.

7. 4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the Statement of Financial Performance even though the financial asset has not been derecognised.

Financial assets carried at amortised cost

Accounts receivables encompasses long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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7. FINANCIAL INSTRUMENTS (continued)

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS 39.64 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

7. 5 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

7. 6 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

8. INVENTORIES

8. 1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

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8. INVENTORIES (continued)

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

8. 2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, nett of trade discounts and rebates.

Water and purified effluent are valued by using the **(FIFO / weighted average)** method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant and slow-moving inventories

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Transitional provisions

The net realisable value of inventory recognised in terms of GRAP 12 have been disclosed for the financial year ended 30 June 2012 in accordance with the requirements of GRAP 12, GRAP 3.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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9. REVENUE RECOGNITION

9. 1 General

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

9. 2 Revenue from Exchange Transactions

9. 2. 1 Service Charges

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

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9. REVENUE RECOGNITION (continued)

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

9. 2. 2 *Pre-paid Electricity*

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

9. 2. 3 *Finance income*

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

9. 2. 4 *Tariff Charges*

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

9. 2. 5 *Income from Agency Services*

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

9. 2. 6 *Sale of Goods (including Houses)*

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

9. 2. 7 *Rentals*

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

9. 2. 8 *Dividends*

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

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9. REVENUE RECOGNITION (continued)

9. 2. 9 *Royalties*

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

9. 3 Revenue from Non-exchange Transactions

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

9. 3. 1 *Rates and Taxes*

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

9. 3. 2 *Fines*

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

9. 3. 3 *Public contributions*

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

9. 3. 4 *Government Grants and receipts*

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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9. REVENUE RECOGNITION (continued)

Conditional grants and receipts of a capital nature

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

9. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

10. PROVISIONS

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
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10. PROVISIONS (continued)

Provision for Restructuring cost

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken;
 - when the plan will be implemented; and;
- (b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the Entity's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

11. EMPLOYEE BENEFITS

11. 1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

11. 2 Post employment benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

11. 2. 1 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

11. EMPLOYEE BENEFITS (continued)

11. 3 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

11. 3. 1 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for using the *"corridor method"*. Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

11. 3. 2 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

11. 3. 3 Provincially-administered Defined Benefit Plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 47 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the Projected Unit Credit Method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

11. 3. 4 Defined benefit pension plans

The municipality has an obligation to provide Post-retirement pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The Entity contributes monthly to the funds.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

11. EMPLOYEE BENEFITS (continued)

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

12. LEASES

Lease Classification

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

12. 1 The Municipality as Lessee

Finance leases

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

12. LEASES (continued)

12. 2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

12. 3 Determining whether an arrangement contains a lease

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

13. BORROWING COSTS

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 4. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

14. GRANTS-IN-AID

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

15. VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

16. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

17. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

18. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

19. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to [note 35](#) for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to [Note 34](#) to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

20. RELATED PARTIES

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

21. EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

22. COMPARATIVE INFORMATION

22. 1 Current year comparatives:

Budgeted amounts have, in accordance with GRAP 1, been provided to these financial statements and forms part of the Annual Financial Statements.

22. 2 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

22. 3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or under spending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

24. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

25. CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
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2011
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1 GENERAL INFORMATION

Umsobomvu Local Municipality (the municipality) is a local government institution in Colesberg, Noupoort and Norvalspont, Colesberg, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley ka Seme District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a low capacity municipality and must comply with GRAP by 30 June 2009. The municipality, however, took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2012.

1.1 RECONCILIATION OF BUDGET SURPLUS/DEFICIT WITH THE SURPLUS/DEFICIT IN THE STATEMENT OF FINANCIAL PERFORMANCE

Description

| | | |
|-------------------------------------------------------------------------|--------------|-------------------|
| Net surplus/(deficit) per the statement of financial performance | 24,753,622 | 2,923,759 |
| Revenue from Non-exchange Transactions | | |
| Property Rates | (230,306) | (181,057) |
| Property Rates - Penalties imposed and collection charges | 73,947 | 95,922 |
| Fines | (3,487,680) | 695,428 |
| Licences and Permits | (186,916) | (104,806) |
| Government Grants and Subsidies Received | (45,789,541) | (8,078,112) |
| Revenue from Exchange Transactions | | |
| Service Charges | 363,493 | 1,567,166 |
| Rental of Facilities and Equipment | (240,950) | (369,750) |
| Interest Earned - External Investments | (400,883) | (21,847) |
| Interest Earned - Outstanding Debtors | (25,817) | 236,479 |
| Other Revenue | (5,365,994) | (4,140,478) |
| Other Losses on Continued Operations | (1,416,652) | - |
| Expenditure | | |
| Employee Related Costs | (470,009) | 627,882 |
| Remuneration of Councillors | 225,722 | (239,363) |
| Depreciation and Amortisation | 26,902,001 | 26,720,777 |
| Impairment Losses | (1,672,948) | 907,733 |
| Repairs and Maintenance | 71,790 | 2,428,633 |
| Finance Costs | (939,711) | (1,369,531) |
| Bulk Purchases | 702,951 | 391,793 |
| Contracted Services | 747,523 | 3,731,688 |
| General Expenses | 5,980,868 | (2,892,541) |
| Loss on Disposal of Property, Plant and Equipment | 407,042 | - |
| Net surplus/deficit per approved budget | 1,551 | 22,929,775 |

A reconciliation has been prepared between the budgeted surplus/ deficit and the surplus/ deficit in the statement of financial performance or , as the budget has been prepared on the Accrual basis.

2 INVENTORIES

| | | |
|--------------------------|----------------|----------------|
| Property Stock | 370,300 | 370,300 |
| Water - at cost | 11,428 | 37,899 |
| Total Inventories | 381,728 | 408,199 |

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to **R2,40** per kilolitre (2011: R5,58 per kilolitre).

No Inventories have been pledged as collateral for Liabilities of the municipality.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R | |
|----------------------------------------------|------------------------|----------------------------------|----------------------|
| 3 RECEIVABLES FROM EXCHANGE TRANSACTIONS | | | |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2012 | | | |
| Service Debtors: | 43,411,172 | 22,038,014 | 21,373,158 |
| Electricity | 4,270,888 | 1,759,912 | 2,510,976 |
| Refuse | 12,455,064 | 6,019,427 | 6,435,637 |
| Sewerage | 8,397,920 | 4,292,024 | 4,105,896 |
| Water | 18,287,299 | 9,966,651 | 8,320,648 |
| Other Receivables | 4,038,113 | 3,579,058 | 459,055 |
| Housing | - | - | - |
| Loan Instalments | 1,887,288 | 1,887,288 | - |
| Other Debtors | 2,150,825 | 1,691,770 | 459,055 |
| Total Receivables from Exchange Transactions | 47,449,285 | 25,617,072 | 21,832,213 |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2011 | | | |
| Service Debtors: | 35,728,450 | 23,359,646 | 12,368,805 |
| Electricity | 3,834,558 | 2,414,764 | 1,419,794 |
| Refuse | 10,826,421 | 7,131,734 | 3,694,687 |
| Sewerage | 6,807,412 | 4,484,275 | 2,323,137 |
| Water | 14,260,059 | 9,328,872 | 4,931,187 |
| Other Receivables | 3,890,864 | 2,563,045 | 1,327,819 |
| Housing | - | - | - |
| Loan Instalments | 1,908,520 | 1,257,208 | 651,313 |
| Other Debtors | 1,982,344 | 1,305,838 | 676,506 |
| Total Receivables from Exchange Transactions | 39,619,314 | 25,922,691 | 13,696,623 |

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratio's of the municipality's Receivables.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

3 RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

3.1 Ageing of Receivables from Exchange Transactions

As at 30 June 2012

| | Current 0 - 30 days | Past Due | | | Total |
|--------------------------------|------------------------|----------------|----------------|------------------|------------------|
| | | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Electricity: | | | | | |
| Gross Balances | 1,061,547 | 376,354 | 185,513 | 2,440,560 | 4,063,973 |
| Less: Provision for Impairment | 159,350 | 229,267 | 73,896 | 1,297,399 | 1,759,912 |
| Net Balances | 902,197 | 147,087 | 111,617 | 1,143,161 | 2,304,062 |
| Refuse: | | | | | |
| Gross Balances | 244,167 | 188,849 | 172,717 | 11,849,331 | 12,455,064 |
| Less: Provision for Impairment | 92,401 | 95,548 | 90,410 | 5,741,069 | 6,019,427 |
| Net Balances | 151,766 | 93,301 | 82,308 | 6,108,262 | 6,435,637 |
| Sewerage: | | | | | |
| Gross Balances | 340,040 | 210,862 | 198,480 | 7,648,537 | 8,397,920 |
| Less: Provision for Impairment | 97,239 | 95,071 | 92,864 | 4,006,850 | 4,292,024 |
| Net Balances | 242,801 | 115,791 | 105,616 | 3,641,688 | 4,105,896 |
| Water: | | | | | |
| Gross Balances | 590,999 | 454,703 | 518,451 | 16,612,279 | 18,176,432 |
| Less: Provision for Impairment | 279,734 | 283,605 | 328,444 | 9,074,867 | 9,966,651 |
| Net Balances | 311,265 | 171,097 | 190,008 | 7,537,411 | 8,209,781 |
| Other Receivables: | | | | | |
| Gross Balances | 31,707 | 36,347 | 35,569 | 3,934,489 | 4,038,113 |
| Less: Provision for Impairment | 24,252 | 26,974 | 27,036 | 3,500,797 | 3,579,058 |
| Net Balances | 7,456 | 9,374 | 8,534 | 433,692 | 459,055 |

As at 30 June Receivables of R19,898,946 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due | | | Total |
|--------------------------------|----------------|----------------|-------------------|-------------------|
| | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| All Receivables: | | | | |
| Gross Balances | 1,267,116 | 1,110,732 | 42,485,195 | 44,863,042 |
| Less: Provision for Impairment | 730,465 | 612,650 | 23,620,982 | 24,964,096 |
| Net Balances | 536,651 | 498,082 | 18,864,214 | 19,898,946 |

As at 30 June 2011

| | Current 0 - 30 days | Past Due | | | Total |
|--------------------------------|------------------------|--------------|--------------|-----------|------------------|
| | | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Electricity: | | | | | |
| Gross Balances | 3,834,558 | | | | 3,834,558 |
| Less: Provision for Impairment | 2,414,764 | | | | 2,414,764 |
| Net Balances | 1,419,794 | - | - | - | 1,419,794 |
| Refuse: | | | | | |
| Gross Balances | 10,826,421 | | | | 10,826,421 |
| Less: Provision for Impairment | 7,131,734 | | | | 7,131,734 |
| Net Balances | 3,694,687 | - | - | - | 3,694,687 |
| Sewerage: | | | | | |
| Gross Balances | 6,807,412 | | | | 6,807,412 |
| Less: Provision for Impairment | 4,484,275 | | | | 4,484,275 |
| Net Balances | 2,323,137 | - | - | - | 2,323,137 |
| Water: | | | | | |
| Gross Balances | 14,260,059 | | | | 14,260,059 |
| Less: Provision for Impairment | 9,328,872 | | | | 9,328,872 |
| Net Balances | 4,931,187 | - | - | - | 4,931,187 |
| Other Receivables: | | | | | |
| Gross Balances | 3,890,864 | | | | 3,890,864 |
| Less: Provision for Impairment | 2,563,045 | | | | 2,563,045 |
| Net Balances | 1,327,819 | - | - | - | 1,327,819 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

3 RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

As at 30 June Receivables of R0 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due | | | Total |
|--------------------------------|--------------|--------------|-----------|-------|
| | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| All Receivables: | | | | |
| Gross Balances | - | - | - | - |
| Less: Provision for Impairment | - | - | - | - |
| Net Balances | - | - | - | - |

3.2 Summary of Receivables from Exchange Transactions by Customer Classification

| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
|-----------------------------------------------------------|-------------------|--------------------------------|-----------------------------------------------|--------------|
| As at 30 June 2012 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 1,395,840 | 732,045 | 140,095 | 481 |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 1,034,002 | 170,717 | 62,115 | 252 |
| 61 - 90 Days | 926,315 | 109,345 | 74,826 | 246 |
| + 90 Days | 39,728,004 | 2,413,191 | 335,901 | 8,130 |
| Sub-total | 43,084,161 | 3,425,297 | 612,936 | 9,108 |
| Less: Provision for Impairment | 23,900,499 | 1,712,859 | - | 3,714 |
| Total Trade Receivables by Customer Classification | 19,183,662 | 1,712,438 | 612,936 | 5,394 |

3.3 Reconciliation of the Provision for Impairment

| | | |
|--------------------------------------|-------------------|-------------------|
| Balance at beginning of year | 25,922,691 | 42,730,361 |
| <i>All Consumer Debtors</i> | 25,922,691 | 42,730,361 |
| <i>Assessment Rates Debtors</i> | | |
| Impairment Losses recognised | - | 6,007,905 |
| <i>All Consumer Debtors</i> | | 6,007,905 |
| <i>Assessment Rates Debtors</i> | - | |
| Impairment Losses reversed | (73,021) | - |
| <i>All Consumer Debtors</i> | (73,021) | - |
| <i>Assessment Rates Debtors</i> | - | - |
| Amounts written off as uncollectable | (232,599) | (22,815,575) |
| <i>All Consumer Debtors</i> | (232,599) | (22,815,575) |
| <i>Assessment Rates Debtors</i> | | - |
| Balance at end of year | 25,617,071 | 25,922,691 |

In determining the recoverability of a Receivable, the municipality considers any change in the credit quality of the Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

Included in the municipality's Receivables balance are debtors with a carrying amount of R19 898 946 which are past due at the reporting date for which the municipality has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits (see Note 13), which are not covering the total outstanding debt. The average age of these receivables is 201 days (2011: 145 days).

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

3.4 Ageing of impaired Receivables from Exchange Transactions

| | | |
|------------------|-------------------|-------------------|
| <u>Current:</u> | | |
| 0 - 30 Days | 652,976 | 25,922,691 |
| <u>Past Due:</u> | | |
| 31 - 60 Days | 730,465 | - |
| 61 - 90 Days | 612,650 | - |
| + 90 Days | 23,620,982 | - |
| Total | 25,617,072 | 25,922,691 |
| | 0.37 | 0.21 |

3.5 Derecognition of Financial Assets

No Financial Assets have been transferred to other parties during the year.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R | |
|--------------------------------------------------|------------------------|----------------------------------|----------------------|
| 4 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS | | | |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2012 | | | |
| Assessment Rates Debtors | 3,874,763 | 1,665,791 | 2,208,972 |
| Payments made in Advance | (425) | - | (425) |
| Sundry Debtors | 451,551 | 200,906 | 250,646 |
| Total Receivables from Non-exchange Transactions | 4,325,889 | 1,866,696 | 2,459,193 |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2011 | | | |
| Assessment Rates Debtors | 3,569,735 | - | 3,569,735 |
| Payments made in Advance | 1,894 | - | 1,894 |
| Sundry Debtors | 399,354 | - | 399,354 |
| Total Receivables from Non-exchange Transactions | 3,970,983 | - | 3,970,983 |

The average credit period for **Government Grants and Subsidies** is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

Sundry Debtors are in respect of debts outstanding at year-end on normal business transactions entered into by the municipality.

The average credit period for Receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality's banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

4.1 Ageing of Receivables from Non-exchange Transactions

As at 30 June 2012

| | Current 0 - 30 days | Past Due 31 - 60 Days | 61 - 90 Days | + 90 Days | Total |
|----------------------------------|------------------------|--------------------------|---------------|------------------|------------------|
| Assessment Rates: | | | | | |
| Gross Balances | 55,840 | 97,915 | 83,039 | 3,637,968 | 3,874,763 |
| Less: Provision for Impairment | 31,067 | 32,503 | 30,730 | 1,571,491 | 1,665,791 |
| Net Balances | 24,773 | 65,413 | 52,309 | 2,066,477 | 2,208,972 |
| Payments made in Advance: | | | | | |
| Gross Balances | (425) | - | - | - | (425) |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | (425) | - | - | - | (425) |
| Sundry Debtors: | | | | | |
| Gross Balances | (2,121) | 10,618 | 8,640 | 434,414 | 451,551 |
| Less: Provision for Impairment | (3,882) | 3,454 | 3,454 | 197,879 | 200,906 |
| Net Balances | 1,761 | 7,164 | 5,186 | 236,535 | 250,646 |

As at 30 June Receivables of R2,433,084 were past due but not impaired. The age analysis of these Receivables are as follows:

| | Past Due 31 - 60 Days | 61 - 90 Days | + 90 Days | Total |
|--------------------------------|--------------------------|---------------|------------------|------------------|
| All Receivables: | | | | |
| Gross Balances | 108,533 | 91,680 | 4,072,383 | 4,272,595 |
| Less: Provision for Impairment | 35,957 | 34,184 | 1,769,370 | 1,839,511 |
| Net Balances | 72,576 | 57,495 | 2,303,012 | 2,433,084 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R

2011
R

4 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued)

As at 30 June 2011

| | Current | Past Due | | | Total |
|-----------------------------------|------------------|--------------|--------------|-----------|------------------|
| | 0 - 30 days | 31 - 60 Days | 61 - 90 Days | + 90 Days | |
| Assessment Rates: | | | | | |
| Gross Balances | 3,569,735 | | | | 3,569,735 |
| Less: Provision for Impairment | | | | | - |
| Net Balances | 3,569,735 | - | - | - | 3,569,735 |
| Payments made in Advance: | | | | | |
| Gross Balances | 1,894 | - | - | - | 1,894 |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | 1,894 | - | - | - | 1,894 |
| Government Subsidy Claims: | | | | | |
| Gross Balances | - | - | - | - | - |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | - | - | - | - | - |
| Sundry Debtors: | | | | | |
| Gross Balances | 399,354 | - | - | - | 399,354 |
| Less: Provision for Impairment | - | - | - | - | - |
| Net Balances | 399,354 | - | - | - | 399,354 |

As at 30 June Receivables of R0 were past due but not impaired.

4.2 Summary of Assessment Rates Debtors by Customer Classification

| | Household R | Industrial/ Commercial R | National and Provincial Government R | Other R |
|-------------------------------------------------------|------------------|--------------------------------|-----------------------------------------------|---------------|
| As at 30 June 2012 | | | | |
| <u>Current:</u> | | | | |
| 0 - 30 days | 141,925 | (74,312) | (1,447) | (13,617) |
| <u>Past Due:</u> | | | | |
| 31 - 60 Days | 96,032 | 13,671 | - | - |
| 61 - 90 Days | 85,106 | 6,574 | - | - |
| + 90 Days | 3,619,068 | 313,632 | 2,255 | 137,427 |
| Sub-total | 3,942,131 | 259,565 | 808 | 123,811 |
| Less: Provision for Impairment | 1,662,595 | 124,409 | - | 79,692 |
| Total Rates Debtors by Customer Classification | 2,279,535 | 135,156 | 808 | 44,118 |

4.3 Reconciliation of Provision for Impairment

| | | |
|-------------------------------|------------------|----------|
| Balance at beginning of year | - | - |
| Other Debtors | - | - |
| Assessment Rates Debtors | - | - |
| Impairment Losses recognised | 1,866,696 | - |
| Other Debtors | 200,906 | - |
| Assessment Rates Debtors | 1,665,791 | - |
| Balance at end of year | 1,866,696 | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|
| 4 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (continued) | | |
| <p>The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.</p> <p>The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.</p> <p>In determining the recoverability of a Debtor, the municipality considers any change in the credit quality of the Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.</p> <p>In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.</p> <p>No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.</p> | | |
| 5 CASH AND CASH EQUIVALENTS | | |
| Current Investments | 20,375,014 | 405,486 |
| Bank Accounts | 11,618,366 | 1,099,131 |
| Cash and Cash Equivalents | 1,580 | 1,580 |
| Total Bank, Cash and Cash Equivalents | 31,994,961 | 1,506,197 |
| <p>For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.</p> | | |
| 5.1 Current Investment Deposits | | |
| Notice Deposits | 20,375,014 | 405,486 |
| Total Current Investment Deposits | 20,375,014 | 405,486 |
| <p>Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 4,90 % to 5,50 % (2011: 4,90% to 5,50%) per annum.</p> | | |
| Deposits attributable to Unspent Conditional Grants | 20,375,014 | 405,486 |
| Total Deposits attributable to Commitments of the Municipality | 20,375,014 | 405,486 |
| <p>Deposits of R20 375 041 (2011: R405 486) are ring-fenced and attributable to Unspent Conditional Grants.</p> | | |
| 5.2 Bank Accounts | | |
| Cash in Bank | 11,618,366 | 1,098,011 |
| Total Bank Accounts | 11,618,366 | 1,098,011 |
| <p>The Municipality has the following bank accounts:</p> | | |
| Primary Bank Account | | |
| <i>ABSA Bank - Colesberg - Account Number: 2440000005</i> | | |
| Cash book balance at beginning of year | (693,583) | (400,124) |
| Cash book balance at end of year | 972,267 | (693,583) |
| Bank statement balance at beginning of year | 197,709 | 286,515 |
| Bank statement balance at end of year | 972,267 | 197,709 |
| <i>ABSA Bank - Colesberg - Account Number: 4052875289</i> | | |
| Cash book balance at beginning of year | 1,367,896 | 960,241 |
| Cash book balance at end of year | 9,459,342 | 1,367,896 |
| Bank statement balance at beginning of year | 1,766,017 | 1,039,196 |
| Bank statement balance at end of year | 9,459,342 | 1,766,017 |
| <i>Standard Bank - Noupoot - Account Number: 280412835</i> | | |
| Cash book balance at beginning of year | 111,730 | 165,143 |
| Cash book balance at end of year | 290,281 | 111,730 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------|----------------|----------------|
| 5 CASH AND CASH EQUIVALENTS (continued) | | |
| Bank statement balance at beginning of year | 108,897 | 155,898 |
| Bank statement balance at end of year | <u>290,280</u> | <u>108,897</u> |
| <i>ABSA Bank - Colesberg - Account Number : 4061642031</i> | | |
| Cash book balance at beginning of year | 311,968 | 576,366 |
| Cash book balance at end of year | <u>895,357</u> | <u>311,968</u> |
| Bank statement balance at beginning of year | 311,968 | 576,366 |
| Bank statement balance at end of year | <u>895,357</u> | <u>311,968</u> |

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

5.3 Cash and Cash Equivalents

| | | |
|--------------------------------------------------------------------|---------------------|---------------------|
| Cash Floats and Advances | 1,580 | 1,580 |
| Total Cash on hand in Cash Floats, Advances and Equivalents | <u>1,580</u> | <u>1,580</u> |

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

6 CURRENT PORTION OF LONG-TERM RECEIVABLES

| | | |
|-------------|----------|---------------------|
| Other Loans | - | 3,516 |
| | <u>-</u> | <u>3,516</u> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

7 PROPERTY, PLANT AND EQUIPMENT

30 June 2012

Reconciliation of Carrying Value

| Description | Land and Buildings | Infra-structure | Rehabilitation Landfill Site | Other | Total |
|-----------------------------------------|--------------------|--------------------|------------------------------|------------------|--------------------|
| | R | R | R | R | R |
| Carrying values at 01 July 2011 | 42,180,030 | 392,429,139 | 4,390,656 | 8,658,734 | 447,658,558 |
| Cost | 48,278,613 | 746,298,601 | 6,860,399 | 11,811,181 | 813,248,794 |
| - Completed Assets | 45,474,318 | 723,129,682 | 6,860,399 | 11,811,181 | 787,275,580 |
| - Under Construction | 2,804,295 | 23,168,920 | - | - | 25,973,214 |
| Accumulated Depreciation: | (6,098,583) | (353,869,462) | (2,469,744) | (3,152,447) | (365,590,236) |
| - Cost | (6,098,583) | (353,869,462) | (2,469,744) | (3,152,447) | (365,590,236) |
| - Revaluation | - | - | - | - | - |
| Acquisitions | 67,530 | 2,965,837 | - | 867,198 | 3,900,566 |
| Capital under Construction - Additions: | 297,704 | 40,670,837 | - | - | 40,968,541 |
| - Cost | 297,704 | 40,670,837 | - | - | 40,968,541 |
| Additions | 297,704 | 40,670,837 | - | - | 40,968,541 |
| Depreciation: | (495,656) | (25,178,181) | (274,416) | (1,840,160) | (27,788,413) |
| - Based on Cost | (495,656) | (25,178,181) | (274,416) | (1,840,160) | (27,788,413) |
| Carrying value of Disposals: | (396,200) | - | - | (13,409) | (409,609) |
| - Cost | (396,200) | - | - | (32,263) | (428,463) |
| - Accumulated Depreciation | - | - | - | 18,854 | 18,854 |
| - Based on Cost | - | - | - | 18,854 | 18,854 |
| - Accumulated Impairment Losses | - | - | - | (227,349) | (227,349) |
| Carrying values at 30 June 2012 | 41,653,408 | 410,887,632 | 4,116,240 | 7,445,013 | 464,102,293 |
| Cost | 48,247,647 | 789,935,276 | 6,860,399 | 12,646,116 | 857,689,438 |
| - Completed Assets | 45,145,649 | 726,095,519 | 6,860,399 | 12,646,116 | 790,747,682 |
| - Under Construction | 3,101,998 | 63,839,757 | - | - | 66,941,755 |
| Revaluation | - | - | - | (227,349) | (227,349) |
| Accumulated Impairment Losses | - | - | - | (227,349) | (227,349) |
| Accumulated Depreciation: | (6,594,239) | (379,047,643) | (2,744,160) | (4,973,754) | (393,359,795) |
| - Cost | (6,594,239) | (379,047,643) | (2,744,160) | (4,973,754) | (393,359,795) |
| - Revaluation | - | - | - | - | - |

30 June 2011

Reconciliation of Carrying Value

| Description | Land and Buildings | Infra-structure | Rehabilitation Landfill Site | Other | Total |
|-----------------------------------------|--------------------|--------------------|------------------------------|------------------|--------------------|
| | R | R | R | R | R |
| Carrying values at 01 July 2010 | 39,257,611 | 393,003,528 | 4,665,072 | 9,592,478 | 446,518,689 |
| Cost | 44,863,285 | 723,129,682 | 6,860,399 | 11,060,072 | 785,913,438 |
| - Completed Assets | 44,863,285 | 723,129,682 | 6,860,399 | 11,060,072 | 785,913,438 |
| - Under Construction | - | - | - | - | - |
| Accumulated Depreciation: | (5,605,674) | (330,126,154) | (2,195,328) | (1,467,593) | (339,394,749) |
| - Cost | (5,605,674) | (330,126,154) | (2,195,328) | (1,467,593) | (339,394,749) |
| Acquisitions | 611,033 | - | - | 751,109 | 1,362,142 |
| Capital under Construction - Additions: | 2,804,295 | 23,168,920 | - | - | 25,973,214 |
| - Cost | 2,804,295 | 23,168,920 | - | - | 25,973,214 |
| Additions | 2,804,295 | 23,168,920 | - | - | 25,973,214 |
| Depreciation: | (492,909) | (23,743,309) | (274,416) | (1,684,854) | (26,195,487) |
| - Based on Cost | (492,909) | (23,743,309) | (274,416) | (1,684,854) | (26,195,487) |
| Carrying values at 30 June 2011 | 42,180,030 | 392,429,139 | 4,390,656 | 8,658,734 | 447,658,558 |
| Cost | 48,278,613 | 746,298,601 | 6,860,399 | 11,811,181 | 813,248,794 |
| - Completed Assets | 45,474,318 | 723,129,682 | 6,860,399 | 11,811,181 | 787,275,580 |
| - Under Construction | 2,804,295 | 23,168,920 | - | - | 25,973,214 |
| Revaluation | - | - | - | - | - |
| Accumulated Impairment Losses | - | - | - | - | - |
| Accumulated Depreciation: | (6,098,583) | (353,869,462) | (2,469,744) | (3,152,447) | (365,590,236) |
| - Cost | (6,098,583) | (353,869,462) | (2,469,744) | (3,152,447) | (365,590,236) |
| - Revaluation | - | - | - | - | - |

All Infrastructure Assets were valued as at 30 June 2012 using the Depreciated Replacement Cost Approach.

The leased Property, Plant and Equipment is secured as set out in Note 15.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|
| 7 PROPERTY, PLANT AND EQUIPMENT (Continued) | | |
| 7.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use | | |
| There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality. | | |
| 7.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal | | |
| No Property, Plant and Equipment were retired from active use and held for disposal during the financial year. | | |
| 7.3 Assets pledged as security | | |
| The municipality did not pledge any of its assets as security. | | |
| 7.4 Impairment of Property, Plant and Equipment | | |
| During the period, the municipality carried out a review of the recoverable amount of its infrastructure property, plant and equipment, having regard to its on-going programme of modernisation and the extension of its services. These assets are used in the municipality's basic services delivery reportable segments. The review led to the recognition of an impairment loss of R 227 349, which has been recognised in the Statement of Financial Performance. The recoverable amount of the relevant assets has been determined on the basis of their value in use. | | |
| Other Assets: Computer Equipment | 1,298 | - |
| Other Assets: Emergency Equipment | 383 | - |
| Other Assets: Furniture and Office Equipment | 12,491 | - |
| Other Assets: Motor Vehicles | 204,342 | - |
| Other Assets: Machinery and Equipment | 9,219 | - |
| Total Impairment of Property, Plant and Equipment | 227,732 | - |
| Impairment losses on Property, Plant and Equipment exist predominantly due to an impaired item of Property, Plant and Equipment that has been physically damaged and has become redundant and idle. | | |
| 7.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed | | |
| A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year 2011/2012: | | |
| Executive and Council | 3,516 | - |
| Finance and Administration | 12,666 | - |
| Social Development | 19,452 | - |
| Technical Services | 16,685 | - |
| Corporate Service | 1,804 | - |
| Total Change in Estimate for Useful Life of Property, Plant and Equipment | 54,123 | - |
| 7.6 Land and Buildings carried at Fair Value | | |
| The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined. | | |
| Land and Buildings were revalued to fair value by using the municipal valuation roll. The effective date of revaluation was 01 July 2009. The valuation was done by Uluntu Consultants, registered and independent valuers. The NHBR indices, which indicate current building costs, were used to determine replacement values. | | |
| An independent valuation of the municipality's Land and Buildings was performed by Mr. D. Grobler, registered and independent valuers, to determine the fair value thereof. The valuation, which conforms to International Valuation Standards, was made on the basis of recent market transactions on arm's length terms. The effective date of the valuation is 1 July 2009. | | |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------|------------------------------|----------------|
| 8 INTANGIBLE ASSETS | | |
| At Cost less Accumulated Amortisation and Accumulated Impairment Losses | 255,970 | 415,278 |
| The movement in Intangible Assets is reconciled as follows: | | |
| | Computer Software | Total |
| Carrying values at 01 July 2011 | 415,278 | 415,278 |
| Cost | 1,559,400 | 1,559,400 |
| Accumulated Revaluation | - | - |
| Accumulated Amortisation | (1,144,122) | (1,144,122) |
| Accumulated Impairment | - | - |
| Acquisitions: | 91,081 | 91,081 |
| Purchased | 91,081 | 91,081 |
| Amortisation: | (250,390) | - |
| Purchased | (250,390) | - |
| Internally Developed | - | - |
| Impairment Losses Recognised | - | - |
| Decreases in Revaluations | - | - |
| Carrying values at 30 June 2012 | 255,970 | 506,359 |
| Cost | 1,650,481 | 1,650,481 |
| Accumulated Revaluation | - | - |
| Accumulated Amortisation | (1,394,511) | (1,144,122) |
| | Computer Software | Total |
| Carrying values at 01 July 2010 | 929,690 | 929,690 |
| Cost | 1,555,802 | 1,555,802 |
| Accumulated Amortisation | (626,112) | (626,112) |
| Acquisitions: | 3,598 | 3,598 |
| Purchased | 3,598 | 3,598 |
| Internally Developed | - | - |
| Amortisation: | (518,009) | (518,009) |
| Purchased | (518,009) | (518,009) |
| Internally Developed | - | - |
| Carrying values at 30 June 2011 | 415,278 | 415,278 |
| Cost | 1,559,400 | 1,559,400 |
| Accumulated Revaluation | - | - |
| Accumulated Amortisation | (1,144,122) | (1,144,122) |
| Accumulated Impairment Losses | - | - |

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 27).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

8.1 Significant Intangible Assets

The municipality has a Financial Accounting System, Abakus, which is material in relation to other intangibles assets recognised. The carrying amount of the software of R160 714 (2011: R375 000) will be fully amortised in 9 months (2011: 24 months).

8.2 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year 2011/2012:

| | | |
|----------------------------------------------------------------------------------|----------------|----------|
| Finance and Administration | 160,714 | - |
| Social Development | 1,490 | - |
| Total Change in Estimate for Useful Life of Property, Plant and Equipment | 162,204 | - |

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

Amortisation is charged on a straight-line basis over the Intangible Assets' useful lives.

8.3 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|----------------|
| 9 INVESTMENT PROPERTY | | |
| At Fair Value | 1,654,811 | 238,159 |
| At Cost less Accumulated Depreciation | - | - |
| The movement in Investment Property is reconciled as follows: | | |
| Carrying values at 1 July | 238,159 | 245,440 |
| Cost | - | - |
| Fair Value | 238,159 | 260,000 |
| Accumulated Depreciation | - | (14,560) |
| Accumulated Impairment Losses | - | - |
| Net Gains / (Losses) from Fair Value Adjustments | 1,416,652 | - |
| Depreciation during the Year | - | (7,281) |
| Carrying values at 30 June | 1,654,811 | 238,159 |
| Cost | - | - |
| Fair Value | 1,654,811 | 260,000 |
| Accumulated Depreciation | - | (21,841) |
| Accumulated Impairment | - | - |
| Estimated Fair Value of Investment Property at 30 June | 1,654,811 | 238,159 |
| Revenue and Expenditure disclosed in the Statement of Financial Performance include the following: | | |
| Rental Revenue earned from Investment Property | 281,345 | - |
| Direct Operating Expenses - incurred to generate rental revenue | - | - |
| Direct Operating Expenses - incurred which did not generate rental revenue | - | - |
| All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality. | | |
| There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal. | | |
| There are no contractual obligations on Investment Property. | | |
| 9.1 Investment Property carried at Fair Value | | |
| The municipality's Investment Property is valued annually at 30 June at fair value by DCR Consultants , an independent, professionally qualified, valuer. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties. | | |
| The following assumptions were used: | | |
| Discount Rate | 7.80% | 6.74% |

10 LONG-TERM RECEIVABLES

| | Gross Balances R | Provision for Impairment R | Net Balances R |
|---------------------------------------------------------------------------|------------------------|----------------------------------|----------------------|
| As at 30 June 2012 | | | |
| Other Loans | - | - | - |
| | - | - | - |
| Less: Current Portion transferred to Current Receivables:- Other Loans | | | - |
| Total Long-term Receivables | | | - |
| | Gross Balances R | Provision for Impairment R | Net Balances R |
| As at 30 June 2011 | | | |
| Other Loans | 3,516 | - | 3,516 |
| | 3,516 | - | 3,516 |
| Less: Current Portion transferred to Current Receivables:- Other Loans | | | 3,516 |
| Total Long-term Receivables | | | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|--------------|
| 10 LONG-TERM RECEIVABLES (continued) | | |
| DEBTORS CAPITALISED | | |
| The municipality does not hold deposits or any other security for its Long-term Receivables. | | |
| No Long-term Receivables have been pledged as security for the municipality's financial liabilities. | | |
| Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets. | | |
| The management of the municipality is of the opinion that the carrying value of Long-term Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. | | |
| 10.1 Ageing of Long-term Receivables | | |
| <u>Current:</u> | | |
| 0 - 30 days | - | 3,516 |
| <u>Past Due:</u> | | |
| 31 - 60 Days | - | - |
| 61 - 90 Days | - | - |
| 91 - 120 Days | - | - |
| + 120 Days | - | - |
| Total | - | 3,516 |

In determining the recoverability of a Long-term Receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The Provision for Impairment on Long-term Receivables exists predominantly due to the possibility that these debts will not be recovered. Long-term Receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment. However, the concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

In determining the recoverability of a Long-term Receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

| | | |
|------------------------------------------------------------------|----------------|----------------|
| 11 CONSUMER DEPOSITS | | |
| Electricity and Water | 606,488 | 556,479 |
| Total Consumer Deposits | 606,488 | 556,479 |
| Guarantees held in lieu of Electricity and Water Deposits | - | - |

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximate their fair values.

| | | |
|------------------------------|-------------------|------------------|
| 12 PAYABLES | | |
| Trade Creditors | 9,840,438 | 3,355,565 |
| Payments received in Advance | - | - |
| Projects | - | - |
| Retentions | - | - |
| Staff Bonuses | 667,394 | 634,832 |
| Staff Leave Accrued | 1,514,339 | 1,172,418 |
| Staff Salaries | - | - |
| Sundry Deposits | 64,807 | 64,807 |
| Other Creditors | 786,482 | 803,650 |
| Total Creditors | 12,873,461 | 6,031,271 |

Staff Leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|---------------------------------------------------|-------------------|------------------|
| 13 UNSPENT CONDITIONAL GRANTS AND RECEIPTS | | |
| 13.1 Conditional Grants from Government | 29,358,920 | 8,481,275 |
| National Government Grants | 9,170,751 | 8,262,018 |
| Other Spheres of Government | 20,188,169 | 219,258 |
| Total Conditional Grants and Receipts | 29,358,920 | 8,481,275 |

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 20 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

14 VAT PAYABLE

| | | |
|-----------------|----------------|------------------|
| Vat Payable. | 605,356 | |
| Vat Receivable. | - | 1,591,613 |
| Vat Payable | 605,356 | 1,591,613 |

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

15 LONG-TERM LIABILITIES

| | | |
|---------------------------------------------------------------------|----------------|----------------|
| Annuity Loans | - | 1,198,735 |
| Finance Lease Liabilities | 462,952 | 678,218 |
| Sub-total | 546,132 | 1,876,953 |
| Less: Current Portion transferred to Current Liabilities:- | 251,569 | 1,330,938 |
| Annuity Loans | - | 1,115,672 |
| Finance Lease Liabilities | 168,389 | 215,266 |
| Other Loans | 83,180 | - |
| Total Long-term Liabilities (Neither past due, nor impaired) | 294,563 | 546,014 |

15.1 Summary of Arrangements

Annuity Loans are repaid over periods varying from 5 to 10 (2011: 5 to 10) years and at interest rates varying from 9.60% to 15.00% (2011: 9.60% to 15.00%) per annum. Annuity Loans are not secured.

Finance Lease Liabilities relate to IT Equipment with a lease term of 5 (2011: 5) years. The effective interest rate on Finance Leases is between 9.00% and 15.00% (2011: 9.00% and 15.00%). Capitalised Lease Liabilities are secured over the items of vehicles and equipment leased.

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

15.2 Obligations under Finance Lease Liabilities

The Municipality as Lessee:

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years (2011: 5 years). The effective interest rate on Finance Leases is between 9.00% and 15.00% (2011: 9.00% and 15.00%).

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 | | 2011 | |
|------------------------------------------------------------------------------------|-----------------------------------|---------|-----------------------------------------|---------|
| | R | | R | |
| 15 | LONG-TERM LIABILITIES (continued) | | | |
| The obligations under Finance Leases are as follows: | | | | |
| | Minimum Lease Payments | | Present Value of Minimum Lease Payments | |
| | 2012 | 2011 | 2012 | 2011 |
| | R | R | R | R |
| Amounts payable under finance leases: | | | | |
| Within one year | 205,837 | 210,384 | 205,837 | 210,384 |
| In the second to fifth years, inclusive | 327,485 | 269,593 | 327,485 | 269,593 |
| Over five years | - | - | - | - |
| | 533,322 | 479,977 | 533,322 | 479,977 |
| Less: Future Finance Obligations | 70,370 | 68,139 | 70,370 | 68,139 |
| Present Value of Minimum Lease Obligations | 462,952 | 411,838 | 462,952 | 411,838 |
| Less: Amounts due for settlement within 12 months (Current Portion) | | | - | 172,291 |
| Finance Lease Obligations due for settlement after 12 months (Non-current Portion) | | | 462,952 | 239,547 |

The municipality has finance lease agreements for the following significant classes of assets:

- Office Equipment
- Vehicles

15.3 Breach of Loan Agreement

The municipality did not default on any payment of its Long-term Liabilities. No terms for payment have been re-negotiated by the municipality.

16 RETIREMENT BENEFIT LIABILITIES

16.1 Post-retirement Health Care Benefits Liability

| | | |
|-------------------------------------------------------------|-------------------------|-------------------------|
| Balance at beginning of Year | 6,780,550 | 5,912,204 |
| Contributions to Provision | (65,532) | (59,304) |
| Increase due to Discounting | 598,600 | 541,402 |
| Expenditure incurred | 453,740 | 417,282 |
| Reduction due to Re-measurement | (786,739) | (31,034) |
| Balance at end of Year | <u>6,980,619</u> | <u>6,780,550</u> |
| Transfer to Current Provisions | - | - |
| Total Post-retirement Health Care Benefits Liability | <u>6,980,619</u> | <u>6,780,550</u> |

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuarial Consultants, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Health Care Benefit Plan are made up as follows:

| | | |
|-------------------------------------------------------|-------------------|-------------------|
| In-service Members (Employees) | 37 | 46 |
| In-service Non-members (Employees) | 156 | 136 |
| Continuation Members (Retirees, widowers and orphans) | 2 | 2 |
| Total Members | <u>195</u> | <u>184</u> |

The liability in respect of past service has been estimated as follows:

| | | |
|------------------------|-------------------------|-------------------------|
| In-service Members | 5,875,000 | 5,732,000 |
| Continuation Members | 1,124,000 | 1,048,000 |
| Total Liability | <u>6,999,000</u> | <u>6,780,000</u> |

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonita's
- Hosmed
- Key health
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2012 is estimated to be R453 700 whereas the cost for the ensuing year is estimated to be R522 700 (2011: R417 300 and R453 700 respectively).

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|
| 16 RETIREMENT BENEFIT LIABILITIES (continued) | | | |
| The principal assumptions used for the purposes of the actuarial valuations were as follows: | | | |
| Discount Rate | 8.34% | 8.87% | |
| Health Care Cost Inflation Rate | 7.16% | 7.38% | |
| Net Effective Discount Rate | 1.11% | 1.38% | |
| Expected Retirement Age - Females | 60 | 60 | |
| Expected Retirement Age - Males | 60 | 60 | |
| Movements in the present value of the Defined Benefit Obligation were as follows: | | | |
| Balance at the beginning of the year | 6,780,550 | 5,912,204 | |
| Current service costs | 453,740 | 417,282 | |
| Interest cost | 598,600 | 541,402 | |
| Benefits paid | (65,532) | (59,304) | |
| Actuarial losses / (gains) | (786,739) | (31,034) | |
| Present Value of Fund Obligation at the end of the Year | 6,980,619 | 6,780,550 | |
| Actuarial losses / (gains) unrecognised | - | - | |
| Total Recognised Benefit Liability | 6,980,619 | 6,780,550 | |
| The amounts recognised in the Statement of Financial Position are as follows: | | | |
| Present value of fund obligations | 6,980,619 | 6,780,550 | |
| | 6,980,619 | 6,780,550 | |
| Unfunded Accrued Liability | 6,980,619 | 6,780,550 | |
| Total Benefit Liability | 6,980,619 | 6,780,550 | |
| The amounts recognised in the Statement of Financial Performance are as follows: | | | |
| Current service cost | 453,740 | 417,282 | |
| Interest cost | 598,600 | 541,402 | |
| Expected Employer Benefit Payments | (65,532) | (59,304) | |
| Actuarial losses / (gains) | (786,739) | (31,034) | |
| Total Post-retirement Benefit included in Employee Related Costs (Note 25) | 200,069 | 868,346 | |
| The history of experienced adjustments is as follows: | | | |
| | 2012 R | 2011 R | 2010 R |
| Present Value of Defined Benefit Obligation | 6,980,619 | 6,780,550 | 5,912,204 |
| Fair Value of Plan Assets | - | - | - |
| Deficit | 6,980,619 | 6,780,550 | 5,912,204 |
| In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period. | | | |
| The effect of a 1% movement in the assumed rate of health care cost inflation is as follows: | | | |
| Increase: | | | |
| Effect on the aggregate of the current service cost and the interest cost | 1,273,300 | 1,145,400 | |
| Effect on the defined benefit obligation | 8,451,000 | 8,030,000 | |
| Decrease: | | | |
| Effect on the aggregate of the current service cost and the interest cost | 878,100 | 810,100 | |
| Effect on the defined benefit obligation | 5,955,000 | 5,778,000 | |
| Refer to Note 44, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered. | | | |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------|-------------------|-------------------|
| 17 NON-CURRENT PROVISIONS | | |
| Provision for Long Service Awards | 1,050,699 | 911,801 |
| Provision for Rehabilitation of Land-fill Sites | 12,098,011 | 11,042,935 |
| Total Non-current Provisions | 13,148,710 | 11,954,736 |

The movement in Non-current Provisions are reconciled as follows:

| | Long-service Awards R | Land-fill Sites R |
|---------------------------------|-----------------------------|----------------------|
| 30 June 2012 | | |
| Balance at beginning of year | 911,801 | 11,042,935 |
| Contributions to provision | (64,995) | 1,055,075 |
| Increase due to discounting | 67,870 | - |
| Expenditure incurred | 134,405 | - |
| Reduction due to re-measurement | 1,618 | - |
| | <u>1,050,699</u> | <u>12,098,011</u> |
| Transfer to current provisions | - | - |
| Balance at end of year | 1,050,699 | 12,098,011 |
| | Long-service Awards R | Land-fill Sites R |
| 30 June 2011 | | |
| Balance at beginning of year | 750,586 | 10,079,874 |
| Contributions to provision | (49,083) | 963,061 |
| Increase due to discounting | 59,284 | - |
| Expenditure incurred | 106,857 | - |
| Reduction due to re-measurement | 44,157 | - |
| | <u>911,801</u> | <u>11,042,935</u> |
| Transfer to current provisions | - | - |
| Balance at end of year | 911,801 | 11,042,935 |

17.1 Long Service Awards

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 185 (2011: 174) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2012 is estimated to be R134 405, whereas the cost for the ensuing year is estimated to be R190 876 (30 June 2011: R106 857 and R134 405 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | | |
|-----------------------------------|-------|-------|
| Discount Rate | 6.45% | 7.71% |
| Net Effective Discount Rate | 0.43% | 1.37% |
| Expected Rate of Salary Increase | 6.00% | 6.26% |
| Expected Retirement Age - Females | 60 | 60 |
| Expected Retirement Age - Males | 60 | 60 |

Movements in the present value of the Defined Benefit Obligation were as follows:

| | | |
|----------------------------------------------------------------|------------------|----------------|
| Balance at the beginning of the year | 911,801 | 750,586 |
| Current service costs | 134,405 | 106,857 |
| Interest cost | 67,870 | 59,284 |
| Benefits vesting | (64,995) | (49,083) |
| Actuarial losses / (gains) | 1,618 | 44,157 |
| Present Value of Fund Obligation at the end of the Year | 1,050,699 | 911,801 |
| Actuarial losses / (gains) unrecognised | - | - |
| Total Recognised Benefit Liability | 1,050,699 | 911,801 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-----------------------------------------------------------------------------------------|-------------------------|-----------------------|
| 17 NON-CURRENT PROVISIONS (continued) | | |
| The amounts recognised in the Statement of Financial Position are as follows: | | |
| Present value of fund obligations | 1,050,699 | 911,801 |
| Fair value of plan assets | - | - |
| | <u>1,050,699</u> | <u>911,801</u> |
| Present value of unfunded obligations | - | - |
| | <u>1,050,699</u> | <u>911,801</u> |
| Unfunded Accrued Liability | - | - |
| Past-service cost not recognised | - | - |
| Actuarial gains / (losses) not recognised | - | - |
| Restrictions on asset recognised | - | - |
| Fair value of reimbursement rights recognised | - | - |
| Total Benefit Liability | <u>1,050,699</u> | <u>911,801</u> |
| The amounts recognised in the Statement of Financial Performance are as follows: | | |
| Current service cost | 134,405 | 106,857 |
| Interest cost | 67,870 | 59,284 |
| Benefits vesting | (64,995) | (49,083) |
| Actuarial losses / (gains) | 1,618 | 44,157 |
| Total Post-retirement Benefit included in Employee Related Costs (Note 25) | <u>138,898</u> | <u>161,215</u> |

The history of experienced adjustments is as follows:

| | 2012 R | 2011 R | 2010 R |
|---------------------------------------------|-------------------------|-----------------------|-----------------------|
| Present Value of Defined Benefit Obligation | 1,050,699 | 911,801 | 750,586 |
| Fair Value of Plan Assets | - | - | - |
| Deficit | <u>1,050,699</u> | <u>911,801</u> | <u>750,586</u> |

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

| | | |
|---------------------------------------------------------------------------|---------|---------|
| Increase: | | |
| Effect on the aggregate of the current service cost and the interest cost | 215,742 | 178,254 |
| Effect on the defined benefit obligation | 270,078 | 215,742 |
| Decrease: | | |
| Effect on the aggregate of the current service cost and the interest cost | 190,092 | 155,182 |
| Effect on the defined benefit obligation | 240,047 | 190,092 |

17.2 Rehabilitation of Land-fill Sites

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R7,6 (2011: R 7,6) million to restore the site at the end of its useful life, estimated to be in 2015. Provision has been made for the net present value of this cost, using the average cost of borrowing interest rate.

18 ACCUMULATED SURPLUS

The Accumulated Surplus consists of the following Internal Funds and Reserves:

| | | |
|------------------------------------------------------------------|---------------------------|---------------------------|
| Capital Replacement Reserve (CRR) | 193,344 | 193,344 |
| Accumulated Surplus / (Deficit) due to the results of Operations | 458,368,138 | 433,614,516 |
| Total Accumulated Surplus | <u>458,561,482</u> | <u>433,807,860</u> |

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | | | 2012 R | 2011 R |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------|---------------------|----------------------|
| 19 | PROPERTY RATES | | | |
| | | Property Valuations | | Actual Levies |
| | | July 2012 R000's | July 2011 R000's | |
| | Residential | 381,280,800 | - | 3,341,747 |
| | Commercial | 61,922,050 | - | 559,925 |
| | Agricultural | 541,782,970 | - | 160,404 |
| | State | 12,832,000 | - | 35,609 |
| | Municipal | 748,750 | - | 48,151 |
| | Total Property Rates | 998,566,570 | - | 4,145,836 |
| | Attributable to: | | | |
| | Continuing Operations | | | 4,145,836 |
| | Discontinued Operations | | | - |
| | | | | 4,145,836 |
| | | | | 3,812,317 |
| The last valuation came into effect on 1 July 2009. A general valuation has been performed during the financial year and will be applied with effect 1 Apr 2012. | | | | |
| Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions. | | | | |
| An general rate is applied as follows to property valuations to determine property rates: | | | | |
| Residential Properties: 1,061 c/R (2010/11: 1.03 c/R) | | | | |
| Business Properties: 1.229 c/R (2010/11: 1.16 c/R) | | | | |
| Agricultural Properties: 0.0265 c/R (2010/11: 0.0258 c/R) | | | | |
| A discount of 20,00% (2011/2010: 20,00%) was granted on properties owned by the State and a discount of 25% on all Agricultural | | | | |
| Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts. | | | | |
| 20 | GOVERNMENT GRANTS AND SUBSIDIES | | | |
| | National Equitable Share | | 26,095,000 | 23,637,479 |
| | Operational Grants | | 26,095,000 | 23,637,479 |
| | Conditional Grants | | 49,139,791 | 33,797,111 |
| | National: FMG | | 1,450,000 | 1,214,500 |
| | National: MIG | | 4,172,238 | 11,977,742 |
| | National: MSIG | | 790,000 | 750,000 |
| | National: DWAF | | 37,868,997 | 13,131,106 |
| | National: INEP | | 2,315,516 | 1,835,759 |
| | National: LDP | | 522,000 | 358,623 |
| | National: EEDG (Solar Geyser Project) | | 59,300 | - |
| | Provincial: Department of Housing | | 1,664,036 | 1,619,834 |
| | Provincial: Department of Safety | | 297,704 | 2,804,295 |
| | Provincial: Lotto | | - | 105,253 |
| | Total Government Grants and Subsidies | | 75,234,791 | 57,434,590 |
| | Government Grants and Subsidies: | | | |
| | Conditional Grants - Capital | | 42,205,553 | 19,496,245 |
| | Unconditional Grants - Capital | | 4,172,238 | 11,977,742 |
| | Unconditional Grants - Operational | | 28,857,000 | 25,960,602 |
| | Total Government Grants and Subsidies | | 75,234,791 | 57,434,589 |
| | Summary of Transfers: | | | |
| | Conditions met - transferred to Revenue: Operating Expenses | | 31,421,586 | 28,069,536 |
| | Conditions met - transferred to Revenue: Capital Expenses | | 43,813,205 | 29,365,053 |
| | Total Transfers | | 75,234,791 | 57,434,589 |
| | Attributable to: | | | |
| | Continuing Operations | | 75,234,791 | 57,434,590 |
| | Discontinued Operations | | - | - |
| | | | 75,234,791 | 57,434,590 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 20 GOVERNMENT GRANTS AND SUBSIDIES (continued) | | |
| Operational Grants: | | |
| 20.1 National: Equitable Share | 26,095,000 | 23,637,479 |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy equal to a maximum of 6 kl of water, one refuse removal and one sewerage pond and 50 kWh of electricity, based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. Where general basic services are absent, alternative energy are provided by means of candles and paraffin. | | |
| Conditional Grants: | | |
| 20.2 National: Equitable Share | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 26,095,000 | 23,637,479 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (26,095,000) | (23,637,479) |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | - | - |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to community members. In terms of the allocation made by DPLG the funds are also utilised to enable the municipality to execute its functions as the local authority. No funds have been withheld. | | |
| 20.3 National: FMG Grant | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 1,450,000 | 1,214,500 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (1,450,000) | (1,214,500) |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | - | - |
| The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld. | | |
| 20.4 National: MIG Funds | | |
| Balance unspent at beginning of year | 1,666,270 | 3,862,012 |
| Current year receipts | 11,774,700 | 9,782,000 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (588,250) | (489,100) |
| Conditions met - transferred to Revenue: Capital Expenses | (3,583,988) | (11,488,642) |
| Conditions met - transferred to Revenue: Own Income | (406,853) | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | 8,861,879 | 1,666,270 |
| The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. No funds have been withheld. | | |
| 20.5 National: MSIG Funds | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 790,000 | 750,000 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (790,000) | (750,000) |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | - | - |
| The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld. | | |
| 20.6 National: Department Water Affairs and Forestry (DWAF) | | |
| Balance unspent at beginning of year | 4,614,506 | 2,729,152 |
| Current year receipts | 37,903,140 | 15,016,460 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (253,000) | - |
| Conditions met - transferred to Revenue: Capital Expenses | (37,615,997) | (13,131,106) |
| Conditions met - transferred to Revenue: Own Income | (4,339,778) | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | 308,871 | 4,614,506 |
| This grant was used for the operation and maintenance of sewerage and water schemes transferred from DWAF to the municipality, the refurbishment of water infrastructure and the payment of salaries of staff transferred from DWAF. No funds have been withheld. | | |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------|
| 20 GOVERNMENT GRANTS AND SUBSIDIES (continued) | | |
| 20.7 National -Integrated National Electrification Programme (Eskom) INEP | | |
| Balance unspent at beginning of year | 1,481,241 | - |
| Current year receipts | 1,170,000 | 3,317,000 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | - | - |
| Conditions met - transferred to Revenue: Capital Expenses | (2,315,516) | (1,835,759) |
| Conditions met - transferred to Revenue: Own Income | (335,725) | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>-</u> | <u>1,481,241</u> |
| Expenses were incurred to promote rural development and upgrade electricity infrastructure. No funds have been withheld. | | |
| 20.8 Provincial - LDP | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 522,000 | 358,623 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (522,000) | (358,623) |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>-</u> | <u>-</u> |
| This grant was received for the building and maintenance of libraries in the district. No funds have been withheld. | | |
| 20.9 National: EEDG (Solar Geyser Project) | | |
| Balance unspent at beginning of year | - | - |
| Current year receipts | 20,000,000 | - |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | (59,300) | - |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions met - transferred to Revenue: Own Income | (8,302) | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>19,932,398</u> | <u>-</u> |
| Expenses were incurred to promote rural development. This is a non capital project and the expense of this grant are allocated under General Expenses - Special Programs. No funds have been withheld. | | |
| 20.10 Provincial: Department of Housing | | |
| Balance unspent at beginning of year | 94,339 | - |
| Current year receipts | 1,700,549 | 1,714,173 |
| Conditions met - transferred to Revenue: Operating Expenses | (1,664,036) | (1,619,834) |
| Conditions met - transferred to Revenue: Capital Expenses | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>130,852</u> | <u>94,339</u> |
| This Grant was allocated to build 100 Houses in Noupport. The property does not belong to the municipality. | | |
| 20.11 Provincial: Department of Safety | | |
| Balance unspent at beginning of year | 124,919 | (19,130) |
| Current year receipts | 320,557 | 3,340,944 |
| Interest allocated | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | - | - |
| Conditions met - transferred to Revenue: Capital Expenses | (297,704) | (2,804,295) |
| Conditions met - transferred to Revenue: Own Income | (22,853) | (392,601) |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>124,919</u> | <u>124,919</u> |
| This grant was received to build a new Taxi Rank in Colesberg. No funds have been withheld. | | |
| 20.12 Provincial: Lotto | | |
| Balance unspent at beginning of year | - | 105,252 |
| Current year receipts | - | - |
| Conditions met - transferred to Revenue: Operating Expenses | - | - |
| Conditions met - transferred to Revenue: Capital Expenses | - | (105,252) |
| Conditions met - transferred to Revenue: Own Income | - | - |
| Conditions still to be met - transferred to Liabilities (see Note 13) | <u>-</u> | <u>-</u> |
| This grant was received to upgrade the Sport Complex in Loweryville, Colesberg. No funds have been withheld. | | |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|---------------------------------|-------------------|-------------------|
| 21 SERVICE CHARGES | | |
| Sale of Electricity | 16,680,446 | 13,962,589 |
| Sale of Water | 8,387,449 | 7,351,314 |
| Refuse Removal | 4,478,378 | 3,929,101 |
| Sewerage and Sanitation Charges | 5,506,374 | 4,834,684 |
| Total Service Charges | 35,052,648 | 30,077,689 |
| Attributable to: | | |
| Continuing Operations | 35,052,648 | 30,077,689 |
| Discontinued Operations | - | - |
| | 35,052,648 | 30,077,689 |

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

| | | |
|-------------------------------------------------|----------------|----------------|
| 22 RENTAL OF FACILITIES AND EQUIPMENT | | |
| - Investment Property | - | - |
| - Other Rental Revenue | 257,177 | 254,404 |
| Rental Revenue from Buildings | 8,714 | 7,893 |
| Rental Revenue from Halls | 32,995 | 46,019 |
| Rental Revenue from Land | 63,550 | 72,117 |
| Rental Revenue from Other Facilities | 16,625 | 27,280 |
| Total Rental of Facilities and Equipment | 379,062 | 407,712 |
| Attributable to: | | |
| Continuing Operations | 379,062 | 407,712 |
| Discontinued Operations | - | - |
| | 379,062 | 407,712 |

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

| | | |
|------------------------------------------------------------------------------------|------------------|------------------|
| 23 INTEREST EARNED | | |
| Property Rates: | | |
| Penalties imposed and Collection Charges | 284,987 | 558,582 |
| | 284,987 | 558,582 |
| External Investments: | | |
| Bank Account | 11,616 | 32,059 |
| Investments | 407,663 | 23,789 |
| | 419,278 | 55,847 |
| Total Interest Received | 419,278 | 55,847 |
| Interest - Variable Rate Instruments | 419,278 | 55,847 |
| Outstanding Debtors: | | |
| Outstanding Billing Debtors | 1,431,320 | 1,258,321 |
| | 1,431,320 | 1,258,321 |
| Total Interest Earned | 2,135,585 | 1,872,750 |
| Interest Earned on Financial Assets, analysed by category of asset, is as follows: | | |
| Available-for-Sale Financial Assets | 419,278 | 55,847 |
| Loans and Receivables | 1,716,307 | 1,816,902 |
| | 2,135,585 | 1,872,750 |
| Interest Earned on Non-financial Assets | - | - |
| | 2,135,585 | 1,872,750 |

Revenue recognised in respect of Financial Assets designated as at "fair value" is disclosed in Note 39.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|----------------------------|------------------|------------------|
| 24 OTHER INCOME | | |
| Building Plan Fees | 15,589 | 18,369 |
| Cemetery Fees | 23,111 | 25,957 |
| Insurance Claims | 116,006 | 221,938 |
| Lease Advertising Signs | 12,458 | 12,600 |
| Prints | 1,271 | 457 |
| Tender Documents | 8,684 | 27,895 |
| Town Planning Fees | 3,485 | 5,331 |
| VAT Own Income | 5,047,128 | 3,246,888 |
| Sundry Income | 303,331 | 581,043 |
| Total Other Revenue | 5,531,064 | 4,140,478 |
| Attributable to: | | |
| Continuing Operations | 5,531,064 | 4,140,478 |
| Discontinued Operations | - | - |
| | 5,531,064 | 4,140,478 |

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 21 to 26, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

25 EMPLOYEE RELATED COSTS

| | | |
|---------------------------------------------------------------------------|-------------------|-------------------|
| Employee Related Costs - Salaries and Wages | 21,619,684 | 18,421,628 |
| Basic Salaries and Wages | 20,187,605 | 16,506,657 |
| Service Bonuses | 1,432,078 | 1,914,971 |
| Employee Related Costs - Contributions for UIF, Pensions and Medical Aids | 3,731,913 | 3,606,206 |
| Group Life | 4,039 | 3,872 |
| Medical | 481,103 | 539,844 |
| Pension | 2,740,738 | 2,651,040 |
| Skills Development Levy | 316,564 | 233,894 |
| UIF | 189,468 | 177,555 |
| Travel, Motor Car, Accommodation, Subsistence and Other Allowances | 717,187 | 1,074,475 |
| Allowances | 717,187 | 1,074,475 |
| Pensioners Allowances | - | - |
| Housing Benefits and Allowances | 47,916 | 55,825 |
| Overtime Payments | 753,449 | 853,424 |
| Performance Bonuses | - | - |
| Defined Benefit Plan Expense: | 338,967 | 1,029,561 |
| Current Service Cost | 588,145 | 417,282 |
| Interest Cost | 666,470 | 541,402 |
| Expected Return on Plan Assets | (130,527) | 101,911 |
| Net Actuarial (gains)/losses recognised | (785,121) | (31,034) |
| Vested Past Service Cost | - | - |
| Total Employee Related Costs | 27,209,116 | 25,041,119 |
| Attributable to: | | |
| Continuing Operations | 27,209,116 | 25,041,119 |
| Discontinued Operations | - | - |
| | 27,209,116 | 25,041,119 |

Included in Employee Related Costs is an amount of R588 145 (2011: R417 282) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans.

Remuneration of Section 57 Employees:

Remuneration of the Municipal Manager

| | | |
|---------------------------------------------------------|------------------|----------------|
| Annual Remuneration | 695,896 | 716,602 |
| Performance Bonus | 55,433 | - |
| Car and Other Allowances | 265,222 | 134,250 |
| Company Contributions to UIF, Medical and Pension Funds | 1,547 | 1,547 |
| Total | 1,018,097 | 852,399 |

Remuneration of the Chief Financial Officer

| | | |
|---------------------------------------------------------|----------------|----------------|
| Annual Remuneration | 527,523 | 538,192 |
| Performance Bonus | 50,681 | - |
| Car and Other Allowances | 175,911 | 136,594 |
| Company Contributions to UIF, Medical and Pension Funds | 1,547 | 1,547 |
| Total | 755,662 | 676,333 |

Remuneration of the Manager: Community Services

| | | |
|---------------------------------------------------------|----------------|----------------|
| Annual Remuneration | 496,817 | 501,215 |
| Performance Bonus | 40,867 | - |
| Car and Other Allowances | 237,361 | 115,192 |
| Company Contributions to UIF, Medical and Pension Funds | 1,547 | 1,547 |
| Total | 776,590 | 617,954 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 25 EMPLOYEE RELATED COSTS (continued) | | |
| Remuneration of the Manager: Technical Services | | |
| Annual Remuneration | 592,117 | 596,790 |
| Performance Bonus | 44,346 | - |
| Car and Other Allowances | 113,923 | 72,000 |
| Company Contributions to UIF, Medical and Pension Funds | 1,547 | 1,547 |
| Total | 751,933 | 670,337 |
| 26 REMUNERATION OF COUNCILLORS | | |
| Mayor | 424,577 | 406,682 |
| Councillors | 1,546,956 | 1,275,104 |
| Other Allowances (Cellular Phones, Housing, Transport, etc) | 441,533 | 535,891 |
| Telephone Allowance | 124,451 | 126,120 |
| Travelling Allowance | 317,082 | 409,771 |
| Total Councillors' Remuneration | 2,413,066 | 2,217,677 |
| In-kind Benefits | | |
| The Councillors occupying the positions of Mayor, Speaker and one member of the Executive Committee of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties. | | |
| The Mayor has use of a Council owned vehicle for official duties. | | |
| 27 DEPRECIATION AND AMORTISATION | | |
| Depreciation: Property, Plant and Equipment | 27,788,413 | 26,195,487 |
| Amortisation: Intangible Assets | 250,390 | 518,009 |
| Depreciation: Investment Property | - | 7,281 |
| Total Depreciation and Amortisation | 28,038,803 | 26,720,777 |
| Depreciation and Amortisation: | | |
| Amortisation: Intangible Assets | 250,390 | 518,009 |
| Depreciation: Property, Plant and Equipment | 31,148,758 | 26,202,768 |
| Total Depreciation and Amortisation | 31,399,147 | 26,720,777 |
| | 3,360,344.68 | |
| Attributable to: | | |
| Continuing Operations | 28,038,803 | 26,720,777 |
| Discontinued Operations | - | - |
| | 28,038,803 | 26,720,777 |
| 28 IMPAIRMENT LOSSES | | |
| 28.1 Impairment Losses on Fixed Assets | | |
| Impairment Losses Recognised: | 227,349 | - |
| Property, Plant and Equipment | 227,349 | - |
| | 227,349 | - |
| 28.2 Impairment Losses on Financial Assets | | |
| Impairment Losses Recognised: | 1,866,696 | 6,007,905 |
| Long-term Receivables | - | - |
| Receivables from Exchange Transactions | - | 6,007,905 |
| Receivables from Non-exchange Transactions | 1,866,696 | - |
| Loans carried at Amortised Cost | - | - |
| Impairment Losses Reversed: | (73,021) | - |
| Long-term Receivables | - | - |
| Receivables from Exchange Transactions | (73,021) | - |
| Loans carried at Amortised Cost | - | - |
| | 2,021,025 | 6,007,905 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 29 FINANCE COSTS | | |
| Bank Overdraft | 35 | 937 |
| Finance Leases | 75,864 | 70,899 |
| Loans and Payables at amortised cost | 51,122 | 130,961 |
| Total Interest Expense | <u>127,021</u> | <u>202,797</u> |
| Less: Amounts included in the Cost of qualifying Assets | - | - |
| Total Interest Paid on External Borrowings | <u><u>127,021</u></u> | <u><u>202,797</u></u> |
| Attributable to: | | |
| Continuing Operations | 127,021 | 202,797 |
| Discontinued Operations | - | - |
| | <u><u>127,021</u></u> | <u><u>202,797</u></u> |
| The weighted average capitalisation rate on funds borrowed generally is 5,27% per annum (2008: 5,24% per annum). | | |
| 30 BULK PURCHASES | | |
| Electricity | 13,845,436 | 10,810,525 |
| Water | 255,364 | 200,488 |
| Total Bulk Purchases | <u><u>14,100,800</u></u> | <u><u>11,011,013</u></u> |
| Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from DWAF and "Boreholes". | | |
| 31 CONTRACTED SERVICES | | |
| Other Contracted Services | 3,589,523 | 4,404,688 |
| Total Contracted Services | <u><u>3,589,523</u></u> | <u><u>4,404,688</u></u> |
| Attributable to: | | |
| Continuing Operations | 3,589,523 | 4,404,688 |
| Discontinued Operations | - | - |
| | <u><u>3,589,523</u></u> | <u><u>4,404,688</u></u> |
| 32 GENERAL EXPENSES | | |
| Included in General Expenses are the following: | | |
| Advertising | 94,621 | 35,323 |
| Audit Fees | 2,002,989 | 1,636,883 |
| Bank Charges | 238,332 | 190,700 |
| Chemicals and Poison | 301,523 | 259,718 |
| Cleaning Costs | 55,496 | 47,080 |
| Consumer Debtors | 2,302,750 | 1,827,069 |
| Entertainment | 97,151 | 30,231 |
| Fuel and Oil | 951,687 | 776,530 |
| Indigent Support | 6,626,115 | 5,771,029 |
| Insurance | 686,920 | 576,721 |
| Lease Charges | 177,385 | 466,756 |
| Local Economical Development | 485,454 | 465,327 |
| Legal Costs | 85,959 | 385,208 |
| Library | 345,836 | - |
| Licenses | 55,386 | 41,689 |
| Membership Fees | 201,623 | 141,793 |
| Materials and Stocks | 78,922 | 113,349 |
| Special programs - 100 Houses Noupoot | 1,664,036 | 1,619,834 |
| Special programs - Bulk Water Leanships | 253,000 | - |
| Special programs - Solar Geyzer | 59,300 | - |
| Other General Expenses | 1,594,399 | 1,620,761 |
| Postage and Telegrams | 135,381 | 164,471 |
| Printing and Stationery | 194,225 | 226,698 |
| Special programs | 51,408 | 89,781 |
| Subsistence and Travelling | 1,300,403 | 929,470 |
| Town Planing | 10,971 | 184,345 |
| Telephone Cost | 776,157 | 752,210 |
| Training Costs | 75,009 | 34,077 |
| Traffic | 3,670,187 | (76,645) |
| Youth Development | - | 111,732 |
| Uniforms and Protective Clothing | 44,984 | 51,136 |
| Total General Expenses | <u><u>24,617,606</u></u> | <u><u>18,473,277</u></u> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-----------|
| 32 GENERAL EXPENSES (continued) | | |
| The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. | | |
| 32.1 Material Losses | 10,132,922 | - |
| Theft | 20,501 | - |
| Distribution Losses: | | |
| Electricity Losses | 3,395,129 | - |
| Water Losses | 6,717,292 | - |

The amounts disclosed above for **Electricity and Water Losses** are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense (See Note 46.9).

| | | |
|---------------------------------------------|------------------|----------|
| 33 OTHER GAINS AND LOSSES | | |
| Change in Fair Value of Investment Property | 1,416,652 | - |
| Net Other Gains and Losses | 1,416,652 | - |

34 CORRECTION OF ERROR

Corrections were made and appropriated to the Accumulated Surplus Account during the financial years ended 30 June.

Details of the appropriations are as follows:

Statement of Financial Position:

| | | |
|--------------------------------------------------------------------|---------------|---------------|
| Inventory | 370,300 | 370,300 |
| Trade Receivables from Exchange Transactions | 267,039 | 267,039 |
| Trade Receivables from Non-Exchange Transactions | (1,364,451) | (1,364,451) |
| VAT Payable | 9,754,891 | 9,754,891 |
| Property, Plant and Equipment | 97,575,112 | 97,575,112 |
| Intangible Assets | 410,178 | 410,178 |
| Creditors | 275,762 | 275,762 |
| Unspent Conditional Grants and Receipts | (386,470) | (386,470) |
| Long-term Liabilities | (266,380) | (266,380) |
| Non-current Provisions | (4,280,131) | (4,280,131) |
| Accumulated Surplus / (Deficit) - Prior Year Adjustments | (101,589,253) | (101,589,253) |
| Accumulated Surplus / (Deficit) - (Surplus) / Deficit for the Year | (766,597) | (766,597) |
| | - | - |

Statement of Financial Performance:

| | |
|------------------------------------------|-------------|
| Service Charges | (18,898) |
| Property Rates | 7,523 |
| Licences and Permits | (164,196) |
| Government Grants and Subsidies Received | (4,529,381) |
| Other Income | (561,803) |
| Employee Related Costs | 285,579 |
| Depreciation and Amortisation | (1,310,328) |
| Repairs and Maintenance | 1,023,930 |
| Impairment Losses | 2,064,100 |
| Finance Costs | 15,902 |
| General Expenses | 2,420,974 |
| | (766,597) |

34.1 Reclassification of Revenue:

The prior year figures of Revenue Classes have been restated to correctly classify the nature of Revenue of the municipality.

Details of the appropriations are as follows:

| | 2012/2011 Revenue | 2011/2010 Revenue | Restated Amount |
|------------------------------------|----------------------|----------------------|--------------------|
| Service Charges | 30,058,791 | 30,300,090 | (241,298) |
| Rental of Facilities and Equipment | 407,712 | 335,595 | 72,117 |
| Other Income | 3,971,276 | 3,409,494 | 169,181 |
| | 34,437,780 | 34,045,179 | - |

34.2 Reclassification of Expenditure:

The prior year figures of Expenditure Classes have been restated to correctly classify the nature of Expenditure of the municipality.

Details of the appropriations are as follows:

| | 2012/2011 Expenditure | 2011/2010 Expenditure | Restated Expenditure |
|---------------------------|--------------------------|--------------------------|-------------------------|
| Employee Related Costs | 25,041,119 | 23,887,194 | 868,346 |
| Repairs and Maintenance | 2,303,465 | 2,159,961 | (755,258) |
| Contracted Services | 4,404,688 | 673,000 | 3,731,688 |
| Grants and Subsidies Paid | - | 2,826,220 | (2,826,220) |
| General Expenses | 18,473,277 | 17,070,859 | (1,018,556) |
| | 50,222,549 | 46,617,233 | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.3 Reclassification of Statement of Financial Position:</u> | | |
| Details of the appropriations are as follows: | 2012/2011 Revenue | 2011/2010 Revenue |
| Receivables from Exchange Transactions | 13,429,584 | 17,410,246 |
| Receivables from Non-exchange Transactions | 3,970,983 | 1,409,209 |
| Cash and Cash Equivalents | 1,506,197 | 2,199,780 |
| Payables | (6,149,453) | (6,608,210) |
| Unspent Conditional Grants and Receipts | (8,481,275) | (7,848,066) |
| VAT Payable | - | (14,326) |
| VAT Provision | (6,686,960) | (8,148,951) |
| Bank Overdraft | - | (693,583) |
| | (2,410,925) | (2,293,900) |
| | - | - |
| <u>34.4 Misstatement of Other and Intangibles Assets</u> | | |
| During the 2012 financial year the municipality did a new verification of all Other Assets as well as Intangible Assets. The prior period figures needed to be adjusted accordingly to the 2012 Fixed Asset Register. The amount was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (830,599) | (1,400,235) |
| (Increase) / decrease in Property, Plant and Equipment | 420,421 | 420,421 |
| (Increase) / decrease in Intangible Assets | 410,178 | 410,178 |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Depreciation and Amortisation | - | 569,636 |
| | - | - |
| <u>34.5 Income recognized as per GRAP 23</u> | | |
| The municipality was allocated an amount of R500 000 in the 2008/2009 financial year from DWAF for drought relief. This amount was only received in the current financial year. Correction was needed to be done to the accumulated surplus account as this amount should have been allocated to Grants and Subsidies Received in the Statement of Financial Performance the 2008/2009 financial year to comply with GRAP 23. This was retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 500,000 | 500,000 |
| (Increase) / decrease in Unspent Conditional Grants | (500,000) | (500,000) |
| | - | - |
| <u>34.6 Correction of Assessment Rates</u> | | |
| During the 2010/2011 financial year the Municipality incorrectly calculated assessment rates. These amounts was corrected in the current 2011/2012 financial year and is allocated to the Accumulated Surplus. This was retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 7,523 | |
| Increase / (decrease) in Trade receivables from Exchange transactions | (7,523) | (7,523) |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Assessment Property Rates | - | 7,523 |
| | - | - |
| <u>34.7 Correction to Trade Creditors in Prior Years</u> | | |
| In the years preceding the 2010 financial year, the municipality accrued for creditors to be paid in the following financial year(s). these payments were however allocated to the expense votes, resulting the overstatement of the relating expenses and creditors. these incorrect allocations / mispostings have been subsequently corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 9,334 | 9,334 |
| (Increase) / decrease in Creditors from Exchange Transactions | (9,334) | (9,334) |
| | - | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.8 Correction of Control account</u> | | |
| The municipality provided for a sundry debtor for amounts that was overspend on the building of 126 houses in Noupoot in the prior years. All the houses were finished prior to the 2010/2011 financial years and this amount will not be paid back from the founder. This was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 27,738 | 27,738 |
| Increase / (decrease) in Trade receivables from Non-exchange transactions | (27,738) | (27,738) |
| | <u>-</u> | <u>-</u> |
| <u>34.9 Correction of MFMA Control Account</u> | | |
| The municipality used the MFMA and MSIG grant in the 2010/2011 year fund expenses incurred. These expenses was not classified as such in the Statement of Performance, but rather in corrected debited to the grant unspent portion. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 1,278,088 | |
| Increase / (decrease) in Trade receivables from Non-exchange transactions | (1,278,088) | (1,278,088) |
| | <u>-</u> | <u>-</u> |
| Statement of Financial Performance: | | |
| Increase / (decrease) in General Expenses | - | 1,278,088 |
| | <u>-</u> | <u>-</u> |
| <u>34.10 Correction to Sundry Debtors</u> | | |
| In the 2009/2010 financial year, an amount of R101 489 was wrongly allocated under Sundry Debtors. This amount had to be allocated to the Electricity Services Charges in the Statement of Financial Performance. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 101,489 | 101,489 |
| Increase / (decrease) in Trade receivables from Non-exchange transactions | (101,489) | (101,489) |
| | <u>-</u> | <u>-</u> |
| <u>34.11 Correction to Grant Control Account</u> | | |
| The amount received from Department of Arts and Culture in the 2009/2010 was not correctly allocated to the Statement of Financial Performance under Grants and Subsidies Received. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (86,048) | (86,048) |
| (Increase) / decrease in Unspent Conditional Grants & Receipts | 86,048 | 86,048 |
| | <u>-</u> | <u>-</u> |
| <u>34.12 Employment cost not correctly allocated</u> | | |
| Employment cost in the salary control account was not correctly allocated in the 2010/2011 and prior to that. This was retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 130,484 | 6,120 |
| (Increase) / decrease in Creditors from Exchange Transactions | (130,484) | (130,484) |
| | <u>-</u> | <u>-</u> |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Employment Costs | - | 124,364 |
| | <u>-</u> | <u>-</u> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.13 Misstatement of Traffic Fines Control Account</u> | | |
| The amount stated under Traffic Control Account was incorrectly allocated as this control account should have been nil. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (218,943) | - |
| (Increase) / decrease in Creditors from Exchange Transactions | 218,943 | 218,943 |
| | <hr/> | <hr/> |
| Statement of Financial Performance: | | |
| Increase / (decrease) in General Expenses | - | (218,943) |
| | <hr/> | <hr/> |
| | <hr/> | <hr/> |
| <u>34.14 Recognition of Grant Income and PPE Assets</u> | | |
| Amounts received from Department of Safety and the Lotto for the building of a new Taxi Ranks and the upgrade of the Lowryville Sportkompleks was never before recognized correctly. These amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (4,447,534) | (1,145,386) |
| Increase / (decrease) in Property, Plant and Equipment | 4,420,052 | 4,420,052 |
| (Increase) / decrease in Unspent Conditional Grants & Receipts | 27,482 | 27,482 |
| | <hr/> | <hr/> |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Grants and Subsidies Received | | (2,909,547) |
| Increase / (decrease) in Other Income | | (392,601) |
| | <hr/> | <hr/> |
| | <hr/> | <hr/> |
| <u>34.15 VAT Review</u> | | |
| A VAT review was done by Max Prof. Consultants to correct the VAT that could be claimed by the Municipality in the prior years. These amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (1,476,317) | (695,741) |
| Increase / (decrease) in VAT Payable | 1,476,317 | 1,476,317 |
| | <hr/> | <hr/> |
| Statement of Financial Performance: | | |
| Increase / (decrease) in General Expenses | - | (780,576) |
| | <hr/> | <hr/> |
| | <hr/> | <hr/> |
| <u>34.16 TVS Traffic Systems Payment</u> | | |
| The June 2011 invoice from TVS Traffic Systems was not provided under Trade Creditors in the 2010/2011 financial year. This invoice was only paid in July 2011 but relates to the 2010/2012 financial year. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 142,297 | - |
| (Increase) / decrease in Creditors from Exchange Transactions | (142,297) | (142,297) |
| | <hr/> | <hr/> |
| Statement of Financial Performance: | | |
| Increase / (decrease) in General Expenses | | 142,297 |
| | <hr/> | <hr/> |
| | <hr/> | <hr/> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.17 Long Services Awards</u> | | |
| No provision was previously done for Long Services Awards for the Municipality. Arch Consultants did the provision and these amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 911,801 | 750,586 |
| (Increase) / decrease in Non-Current Provisions | (911,801) | (911,801) |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Employment Costs | 161,215 | |
| | - | - |
| <u>34.18 Land-Held-For-Sales</u> | | |
| It was found that property was incorrectly allocated under Land and Buildings (PPE) in the prior years, where it should have been allocated under Inventory (Land-Held-For-Sale). These amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| Increase / (decrease) in Inventory | 370,300 | 370,300 |
| (Increase) / decrease in Property, Plant and Equipment | (370,300) | (370,300) |
| | - | - |
| <u>34.19 Finance Leases Understated</u> | | |
| After recalculating the finance lease liability for 2011, it was noted that the amount stated under Long-term Liabilities was understated by R266 379. It was also noted that the amount disclosed under finance charges was understated. This was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| (Increase) / decrease in Accumulated Surplus | 266,380 | - |
| (Increase) / decrease in Long-term Liabilities | (266,380) | (266,380) |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Finance Charges | - | 15,902 |
| Increase / (decrease) in General Expenses | - | 250,477 |
| | - | - |
| <u>34.20 SARS EMP501 Refund</u> | | |
| The Municipality received a refund from SARS for overpayment of Employee Tax in 2006. There was no provision made in the prior years. The this corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| (Increase) / decrease in Accumulated Surplus | (50,387) | (50,387) |
| (Increase) / decrease in Trade receivables from Non-exchange transactions | 50,387 | 50,387 |
| | - | - |
| <u>34.21 GRAP 23 Grant Income</u> | | |
| The Municipality received funds to build 100 Houses in Noupoort. This was not allocated under grants received in the Statement of Performance in the previous years. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Grants and Subsidies Received | - | (1,619,834) |
| Increase / (decrease) in General Expenses | - | 1,619,834 |
| | - | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.22 Correction to Other Creditors</u> | | |
| On amount of R64 906 was incorrectly allocated under Creditors in the previous years. This amount was carries over from the 2006 Financial Year. A consolidation was done where an amount of R 18 033 should have been allocated to Skills Development Fund and the rest of the amount was for unknown deposits received prior to 2006. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (46,873) | (46,873) |
| (Increase) / decrease in Creditors from Exchange Transactions | 46,873 | 46,873 |
| | <u>-</u> | <u>-</u> |
| <u>34.23 Non - Current Provision</u> | | |
| The Provision of Rehabilitation for Landfill sites needed to be adjusted as per IGRAP2 | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 3,806,368 | 2,907,606 |
| Increase / (decrease) in Property, Plant and Equipment | (438,039) | (438,039) |
| (Increase) / decrease in Non-current provision | (3,368,330) | (3,368,330) |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Repairs & Maintenance | - | 898,762 |
| | <u>-</u> | <u>-</u> |
| <u>34.24 Traffic Agency Fees</u> | | |
| The income received from Traffic Agency Fees was not corrected allocated to the Statement of Financial Performance, but to a control account under Creditors. These amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (164,196) | |
| (Increase) / decrease in Creditors from Exchange Transactions | 164,196 | 164,196 |
| Statement of Financial Performance: | | |
| (Increase) / decrease in License and Permits | | (164,196) |
| | <u>-</u> | <u>-</u> |
| <u>34.25 Investment Clearance Account</u> | | |
| The Municipality incorrectly allocated town planning expenses to an investment clearance account in the 2011 financial year. These expenses should have been allocated to the Statement of Financial Performance. These amounts were retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 105,115 | (24,681) |
| Increase / (decrease) in Property, Plant and | (114,798) | (114,798) |
| (Increase) / decrease in Creditors from Exchange Transactions | 9,683 | 9,683 |
| Statement of Financial Performance: | | |
| Increase / (decrease) in General Expenses | | 129,796 |
| | <u>-</u> | <u>-</u> |
| <u>34.26 Misstatement of Infrastructure Assets</u> | | |
| During the 2012 financial year the municipality did a new verification of all Infra Structure, Land & Buildings and Community Assets. The prior period figures needed to be adjusted accordingly to the 2012 Fixed Asset Register. The amount was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (151,697,016) | (153,177,397) |
| Increase / (decrease) in Property, Plant and | 151,697,016 | 151,697,016 |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Depreciation and Amortisation | | 1,480,381 |
| | <u>-</u> | <u>-</u> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.27 Misstatement of Infrastructure Assets</u> | | |
| During the 2012 financial year the municipality did a new verification of all Infra Structure, Land & Buildings and Community Assets. The prior period figures needed to be adjusted accordingly to the 2012 Fixed Asset Register. It was also found that some of the properties under Community Assets and Land & Buildings was overstated due to incorrect market value. These amounts was corrected retrospectively. Furthermore it was found that 13 properties was incorrectly corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | 58,039,240 | 61,399,584 |
| Increase / (decrease) in Property, Plant and Equipment | (58,039,240) | (58,039,240) |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Depreciation and Amortisation | | (3,360,345) |
| | - | - |
| <u>34.28 Misstatement of VAT Control Account for 2011</u> | | |
| It was found that the amount of R1 272 565.98 for the April 2011 VAT period was not received in the 2011 from SARS. It was also noted that no provision was also made for the amount outstanding. This amount was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (1,272,566) | (1,272,566) |
| (Increase) / decrease in VAT Payable | 1,272,566 | 1,272,566 |
| | - | - |
| <u>34.29 Error identified in VAT output account</u> | | |
| During the year it was found that the VAT output account does not agree to the consumers age analysis. On further investigation it was found that this is the result of legacy issues and this has been retrospectively corrected. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (3,822,519) | (3,822,519) |
| (Increase) / decrease in VAT Payable | 3,822,519 | 3,822,519 |
| | - | - |
| <u>34.30 Error identified in Payables</u> | | |
| After investigation it was found the following creditor listed | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (118,182) | (74,148) |
| (Increase) / decrease in Creditors from Exchange Transactions | 118,182 | 118,182 |
| Statement of Financial Performance: | | |
| Increase / (decrease) in Repairs & Maintenance | | 125,168 |
| (Increase) / decrease in Other Income | | (169,202) |
| | - | - |
| <u>34.31 Error identified in Services Charges</u> | | |
| An estimate needed to be done for the last 5 days of the year end for revenue. This amounts was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (267,039) | (248,141) |
| (Increase) / decrease in Trade receivables from Exchange transactions | 267,039 | 267,039 |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Service Charges | | (18,898) |
| | - | - |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 34 CORRECTION OF ERROR (continued) | | |
| <u>34.32 Error identified on VAT - Impairment of debtors</u> | | |
| Correction was done as no VAT was taken into account on the Impairment of loans and receivables as per IAS 39. This amounts was corrected retrospectively. | | |
| The effect of the Correction of Error is as follows: | | |
| Statement of Financial Position: | | |
| (Increase) / decrease in Accumulated Surplus | (3,183,488) | (5,247,588) |
| (Increase) / decrease in VAT Payable | 3,183,488 | 3,183,488 |
| Statement of Financial Performance: | | |
| (Increase) / decrease in Impairment Losses | - | 2,064,100 |
| | - | - |
| 35 CHANGE IN ACCOUNTING ESTIMATES | | |
| 35.1 Depreciation Expenditure: | | |
| The residual values, estimated useful lives and depreciation method were reviewed at 30 June 2012. Adjustments to the residual values and useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well. The adjustments are as follows: | | |
| Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of Intangible Assets | (162,204) | - |
| Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of PPE | (54,123) | - |
| Increase / (Decrease) in Depreciation of PPE | (216,327) | - |
| Depreciation as previously stated | 27,822,476 | - |
| Adjustment due to Change in Accounting Estimate | 216,327 | - |
| Depreciation as per Note 27 | 28,038,803 | - |
| 36 CASH GENERATED BY OPERATIONS | | |
| Surplus / (Deficit) for the Year | 24,753,622 | 2,923,759 |
| Adjustment for: | | |
| Correction of Prior Year Errors | - | 99,944,266 |
| Appropriations to/from Internal Reserves | - | - |
| Depreciation and Amortisation | 28,038,803 | 26,720,777 |
| Impairment Losses on Property, Plant and Equipment | 227,349 | - |
| Gains on Disposal of Property, Plant and Equipment | 407,042 | - |
| Other Movement on Property, Plant and Equipment | - | (95,907,963) |
| Other Movement on Intangible Assets | - | (922,428) |
| Other Movement on Investment Properties | (1,416,652) | - |
| Contribution to Retirement Benefit Liabilities | 200,069 | - |
| Expenditure incurred from Retirement Benefit Liabilities | - | 868,346 |
| Contribution to Provisions - Non-current | 1,193,973 | 4,782,471 |
| Investment Income | (2,135,585) | (1,872,750) |
| Finance Costs | 127,021 | 202,797 |
| Operating surplus before working capital changes | 51,395,641 | 36,739,276 |
| Decrease/(Increase) in Inventories | 26,471 | (364,140) |
| Decrease/(Increase) in Receivables from Exchange Transactions | (8,135,590) | 1,124,614 |
| Decrease/(Increase) in Receivables from Non-exchange Transactions | 1,511,790 | (3,748,640) |
| Increase/(Decrease) in Consumer Deposits | 50,010 | 11,933 |
| Increase/(Decrease) in Payables | 6,842,190 | 753,997 |
| Increase/(Decrease) in Conditional Grants and Receipts | 20,877,644 | 1,780,941 |
| Increase/(Decrease) in VAT Payable | 2,196,970 | (11,356,371) |
| Cash generated by / (utilised in) Operations | 74,765,126 | 24,941,610 |
| 37 NON-CASH INVESTING AND FINANCING TRANSACTIONS | | |
| The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2011/12 financial year. | | |
| 38 FINANCING FACILITIES | | |
| The municipality did not have any Financing Facilities available at any time during the two financial years. | | |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-------------|
| 39 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION | | |
| Long-term Liabilities (See Note 15) | 546,132 | 1,876,953 |
| Used to finance Property, Plant and Equipment - at cost | (546,132) | (1,876,953) |
| Sub-total | - | - |
| Cash set aside for the Repayment of Long-term Liabilities (See Notes 5) | - | - |
| Cash invested for Repayment of Long-term Liabilities | - | - |
| Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates. | | |

40 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

40.1 Unauthorised Expenditure

| | | |
|---------------------------------------------------|------------------|-------------------|
| Reconciliation of Unauthorised Expenditure: | | |
| Opening balance | 28,464,652 | 570,400 |
| Unauthorised Expenditure current year | 33,375,404 | 27,894,252 |
| Approved by Council or condoned 17th October 2012 | (60,200,283) | - |
| Unauthorised Expenditure awaiting authorisation | 1,639,773 | 28,464,652 |

| Incident | Disciplinary Steps / Criminal Proceedings |
|--------------------------------------------------------------|-------------------------------------------|
| Budgeted votes exceeded:- | To be condoned by Council |
| - Executive and Council - R0 (2011: R86 236) | None |
| - Finance and Administration - R4 113 632 (2011: R0) | None |
| - Planning and Development - R8 352 863 (2011: R7 362) | None |
| - LED and IDP - R22 441 (2011: R0) | None |
| - Community and Social Services - R3 538 990 (2011: R11 406) | None |
| - Housing - R1 653 072 (2011: R9 246) | None |
| - Public Safety - R3 530 707 (2011: R0) | None |
| - Waste Management - R11 303 562 (2011: R25 071 186) | None |
| - Electricity - R1 951 112 (2011: R2 708 816) | None |

40.2 Fruitless and Wasteful Expenditure

| | | |
|---------------------------------------------------------|-----------|----------|
| Reconciliation of Fruitless and Wasteful expenditure: | | |
| Opening balance | - | - |
| Fruitless and Wasteful Expenditure current year | 35 | - |
| Fruitless and Wasteful Expenditure awaiting condonement | 35 | - |

| Incident | Disciplinary Steps / Criminal Proceedings |
|---------------------------------------------------------------|-------------------------------------------|
| Interest on late payment - Various Creditors - R35 (2011: R0) | None |

40.3 Irregular Expenditure

To management's best of knowledge instances of note indicating that Irregular Expenditure was incurred during the year under review were not revealed.

| | | |
|---------------------------------------------------------|-------------|------------------|
| Reconciliation of Irregular Expenditure: | | |
| Opening balance | 2,168,113 | - |
| Irregular Expenditure current year | 4,291,050 | 2,168,113 |
| Condoned or written off by Council on 17th October 2012 | (6,438,662) | - |
| To be recovered – contingent asset (see Note 47) | - | - |
| Transfer to receivables for recovery (see Note 5) | (20,501) | - |
| Irregular Expenditure awaiting condonement | - | 2,168,113 |

| Incident | Disciplinary Steps / Criminal Proceedings |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Fraud</i> | <i>Mr. Percy Mugwedi was charged with fraud for the estimate amount of R100 000 at the beginning of the 2012/2013 financial year, but relates to the current financial year. An investigation is still underway.</i> |
| <i>During the year a Ms Nomzamo Maciki was formally charged with theft, gross dishonesty and failure to obey lawful and reasonable instructions by a person. Having the authority to do so.</i> | <i>The incident was reported to all institutions and all required steps were taken. Ms Maciki was formally charged and the court case is still in progress. The amount of R20 501 is included under other debtors to be recovered.</i> |
| <i>Deviations for the Procurement Process</i> | <i>During the year deviations amounting to R4 270 549 (2010: R2 168 113) were identified relating less than the minimum quotations obtained. These items were identified in the current year after a detailed investigation by management. The register containing the detail of the total balance is available for inspection, based on the discretion of management. No disciplinary steps have been taken to date and no formal investigation into the matters have been launched. A report relating the deviations was adopted by the council and approved by the Municipal Manger.</i> |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | | 2012 R | 2011 R |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|--------------------------------------|
| 41 | ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT | | |
| | 41.1 Contributions to organised local government - SALGA | | |
| | Opening Balance | - | - |
| | Council Subscriptions | 201,623 | 141,793 |
| | Amount Paid - current year | (201,623) | (141,793) |
| | Amount Paid - previous years | - | - |
| | Balance Unpaid (included in Creditors) | - | - |
| | 41.2 Audit Fees | | |
| | Opening Balance | - | - |
| | Current year Audit Fee | 1,819,076 | 1,636,883 |
| | Amount Paid - current year | (1,819,076) | (1,636,883) |
| | Amount Paid - previous years | - | - |
| | Balance Unpaid (included in Creditors) | - | - |
| | 41.3 VAT | | |
| | The net of VAT input payables and VAT output receivables are shown in Note 14. All VAT returns have been submitted by the due date throughout the year. | | |
| | 41.4 PAYE, Skills Development Levy and UIF | | |
| | Opening Balance | - | - |
| | Current year Payroll Deductions | 3,603,561 | 2,571,400 |
| | Amount Paid - current year | (3,603,561) | (2,571,400) |
| | Amount Paid - previous years | - | - |
| | Balance Unpaid (included in Creditors) | - | - |
| | 41.5 Pension and Medical Aid Deductions | | |
| | Opening Balance | - | - |
| | Current year Payroll Deductions and Council Contributions | 4,740,724 | 4,401,072 |
| | Amount Paid - current year | (4,740,724) | (4,401,072) |
| | Amount Paid - previous years | - | - |
| | Balance Unpaid (included in Creditors) | - | - |
| | 41.6 Councillor's arrear Consumer Accounts | | |
| | The following Councillors had arrear accounts outstanding for more than 90 days as at: | | |
| | 30 June 2012 | Total | Outstanding up to 90 days |
| | | | Outstanding more than 90 days |
| | Councillor Sestile MA | 9,923 | - |
| | Total Councillor Arrear Consumer Accounts | 9,923 | 9,923 |
| | 30 June 2011 | Total | Outstanding up to 90 days |
| | | | Outstanding more than 90 days |
| | Councillor Batties N.J. | 3,238 | 192 |
| | Total Councillor Arrear Consumer Accounts | 3,238 | 3,046 |
| | 41.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act | | |
| | No known matters existed at reporting date. | | |
| | 41.8 Deviation from, and ratification of minor breaches of, the Procurement Processes | | |
| | In terms of section 36(2) of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager and noted by Council. | | |
| | Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were submitted to Council on a quarterly basis by the CFO, which condoned the various cases. | | |
| | 41.9 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA | | |
| | Material Electricity and Water Losses were as follows and are not recoverable: | | |
| | Electricity: | | |
| | Purchased during the year | units (kWh) 24,399,180 | - |
| | Sold during the year | units (kWh) (18,111,904) | - |
| | Unaccounted | units (kWh) 6,287,276 | - |
| | Normal distribution losses - % of electricity purchases | 8.00% units (kWh) (1,951,934) | - |
| | Loss | units (kWh) 4,335,342 | - |
| | Loss % | 17.77% | - |
| | Loss (R): | R0.54 Avg cent per kWh 2,341,084 | - |

Electricity Losses occur due to *inter alia*, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | | 2012 R | 2011 R |
|-----------|----------------------------------------------------------------------------------------|------------------------|-----------|
| 41 | ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued) | | |
| | Water: | | |
| | Purified during the year | units (kl) 2,831,925 | |
| | Sold during the year | units (kl) (1,091,694) | |
| | Unaccounted | units (kl) 1,740,231 | |
| | Normal distribution losses - % of Water distribution | units (kl) (424,789) | |
| | Loss | units (kl) 1,315,442 | |
| | Loss % | 46.45% | - |

| | | Lost Units | Tariff | Value |
|---------------------|--------------------------|------------|--------|-----------|
| 30 June 2012 | Unaccounted Water Losses | 1,315,442 | 3.8600 | 5,077,607 |

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an on-going process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

42 COMMITMENTS FOR EXPENDITURE

42.1 Capital Commitments

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

| | | |
|----------------|-------------------|-------------------|
| | 78,528,200 | 63,380,524 |
| Infrastructure | 78,062,823 | 63,380,524 |
| Other | 465,377 | - |

- Approved but Not Yet Contracted for:-

| | | |
|----------------|---|---|
| Infrastructure | - | - |
|----------------|---|---|

Total Capital Commitments

| | | |
|--|-------------------|-------------------|
| | 78,528,200 | 63,380,524 |
|--|-------------------|-------------------|

This expenditure will be financed from:

| | | |
|-------------------|-------------------|-------------------|
| Government Grants | 78,528,200 | 63,380,524 |
| | 78,528,200 | 63,380,524 |

42.2 Lease Commitments

Finance Lease Liabilities are disclosed in Notes 15.

43 FINANCIAL INSTRUMENTS

43.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

| <u>Financial Assets</u> | <u>Classification</u> | | |
|---------------------------------------------------|-----------------------|------------|-----------|
| Receivables from Exchange Transactions | | | |
| Electricity | Loans and receivables | 2,510,976 | 1,419,794 |
| Refuse | Loans and receivables | 6,435,637 | 3,694,687 |
| Sewerage | Loans and receivables | 4,105,896 | 2,323,137 |
| Water | Loans and receivables | 8,320,648 | 4,931,187 |
| Other Receivables | Loans and receivables | 459,055 | 1,327,819 |
| Receivables from Non-exchange Transactions | | | |
| Assessment Rates Debtors | Loans and receivables | 2,208,972 | 3,569,735 |
| Payments made in Advance | Loans and receivables | (425) | 1,894 |
| Government Subsidy Claims | Loans and receivables | | |
| Sundry Debtors | Loans and receivables | 250,646 | 399,354 |
| Cash and Cash Equivalents | | | |
| Notice Deposits | Held to maturity | 20,375,014 | 405,486 |
| Bank Balances | Available for sale | 11,618,366 | 1,098,011 |
| Cash Floats and Advances | Available for sale | 1,580 | 1,580 |

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | | 2012 R | 2011 R |
|---------------------------------------------|---------------------------|--------------------------|--------------------------|
| 43 FINANCIAL INSTRUMENTS (continued) | | | |
| SUMMARY OF FINANCIAL ASSETS | | | |
| Receivables from Exchange Transactions | Electricity | 2,510,976 | 1,419,794 |
| Receivables from Exchange Transactions | Refuse | 6,435,637 | 3,694,687 |
| Receivables from Exchange Transactions | Sewerage | 4,105,896 | 2,323,137 |
| Receivables from Exchange Transactions | Water | 8,320,648 | 4,931,187 |
| Receivables from Exchange Transactions | Other Debtors | 459,055 | 1,327,819 |
| Receivables from Non-exchange Transactions | Assessment Rates Debtors | 2,208,972 | 3,569,735 |
| Receivables from Non-exchange Transactions | Payments made in Advance | (425) | 1,894 |
| Receivables from Non-exchange Transactions | Government Subsidy Claims | | |
| Receivables from Non-exchange Transactions | Sundry Debtors | 250,646 | 399,354 |
| Cash and Cash Equivalents | Notice Deposits | 20,375,014 | 405,486 |
| | | <u>44,666,420</u> | <u>18,073,092</u> |
| Available for Sale: | | | |
| Cash and Cash Equivalents | Call Deposits | | |
| Cash and Cash Equivalents | Bank Balances | 11,618,366 | 1,098,011 |
| Cash and Cash Equivalents | Cash Floats and Advances | 1,580 | 1,580 |
| | | <u>11,619,946</u> | <u>1,099,591</u> |
| Total Financial Assets | | <u>56,286,367</u> | <u>19,172,683</u> |

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

| <u>Financial Liabilities</u> | <u>Classification</u> | | |
|-------------------------------------------------|-----------------------------------------|-----------|-----------|
| Long-term Liabilities | | | |
| Annuity Loans | Financial liabilities at amortised cost | | 83,063 |
| Finance Lease Liabilities | Financial liabilities at amortised cost | 294,563 | 462,952 |
| Payables | | | |
| Trade Creditors | Financial liabilities at amortised cost | 9,840,438 | 3,355,565 |
| Staff Bonuses | Financial liabilities at amortised cost | 667,394 | 634,832 |
| Staff Leave Accrued | Financial liabilities at amortised cost | 1,514,339 | 1,172,418 |
| Sundry Deposits | Financial liabilities at amortised cost | 64,807 | 64,807 |
| Other Creditors | Financial liabilities at amortised cost | 786,482 | 803,650 |
| Current Portion of Long-term Liabilities | | | |
| Annuity Loans | Financial liabilities at amortised cost | | 1,115,672 |
| Finance Lease Liabilities | Financial liabilities at amortised cost | 168,389 | 215,266 |

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

| | | | |
|------------------------------------------|---------------------------|--------------------------|-------------------------|
| Long-term Liabilities | Annuity Loans | | 83,063 |
| Long-term Liabilities | Finance Lease Liabilities | 294,563 | 462,952 |
| Payables | Trade Creditors | 9,840,438 | 3,355,565 |
| Payables | Staff Bonuses | 667,394 | 634,832 |
| Payables | Staff Leave Accrued | 1,514,339 | 1,172,418 |
| Payables | Sundry Deposits | 64,807 | 64,807 |
| Payables | Other Creditors | 786,482 | 803,650 |
| Current Portion of Long-term Liabilities | Annuity Loans | | 1,115,672 |
| Current Portion of Long-term Liabilities | Finance Lease Liabilities | 168,389 | 215,266 |
| | | <u>13,419,593</u> | <u>7,908,224</u> |
| Total Financial Liabilities | | <u>13,419,593</u> | <u>7,908,224</u> |

43.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash and Short-term Investments

The carrying amount approximates fair value because of the short maturity of those instruments.

Available-for-sale investments

The fair values of some investments are estimated, based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R **2011**
R

43 FINANCIAL INSTRUMENTS (continued)

Loan Receivables/Payables

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2011, as a result of the short-term maturity of these assets and liabilities.

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

| | 30 June 2012 | | 30 June 2011 | |
|--------------------------------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | R | R | R | R |
| FINANCIAL ASSETS | | | | |
| Measured at Amortised Cost: | 44,666,420 | 44,666,420 | 18,073,092 | 18,073,092 |
| Notice Deposits | 20,375,014 | 20,375,014 | 405,486 | 405,486 |
| Trade Receivables from Exchange Transactions | 21,832,213 | 21,832,213 | 13,696,623 | 13,696,623 |
| Trade Receivables from Non-exchange Transactions | 2,459,193 | 2,459,193 | 3,970,983 | 3,970,983 |
| Measured at Fair Value | 11,619,946 | 11,619,946 | 1,099,591 | 1,099,591 |
| Bank Balances and Cash | 11,619,946 | 11,619,946 | 1,099,591 | 1,099,591 |
| Total Financial Assets | 56,286,367 | 56,286,367 | 19,172,683 | 19,172,683 |
| FINANCIAL LIABILITIES | | | | |
| Measured at Amortised Cost: | 13,419,593 | 13,419,593 | 7,908,224 | 7,908,224 |
| Annuity Loans | - | - | 83,063 | 83,063 |
| Finance Lease Liabilities | 294,563 | 294,563 | 462,952 | 462,952 |
| Trade and Other Payables: | | | | |
| - Creditors | 12,873,461 | 12,873,461 | 6,031,271 | 6,031,271 |
| - Current Portion of Long-term Liabilities | 251,569 | 251,569 | 1,330,938 | 1,330,938 |
| Total Financial Liabilities | 13,419,593 | 13,419,593 | 7,908,224 | 7,908,224 |
| Total Financial Instruments | 42,866,774 | 42,866,774 | 11,264,458 | 11,264,458 |
| Unrecognised Gain / (Loss) | | - | | |

No Financial Instruments of the municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | | 2012 R | 2011 R |
|---------------------------------------------|--------------|-------------------|-------------------|
| 43 FINANCIAL INSTRUMENTS (continued) | | | |
| 30 June 2012 | | | |
| | Level 1 R | Level 2 R | Level 3 R |
| | | | Total R |
| FINANCIAL ASSETS | | | |
| Financial Instruments at Fair Value: | | | |
| Notice Deposits | - | 20,375,014 | 20,375,014 |
| Bank Balances and Cash | - | 11,619,946 | 11,619,946 |
| Total Financial Assets | <u>-</u> | <u>31,994,961</u> | <u>31,994,961</u> |
| FINANCIAL LIABILITIES | | | |
| Financial Instruments at Fair Value: | | | |
| Finance Lease Liabilities | - | 294,563 | 294,563 |
| Total Financial Liabilities | <u>-</u> | <u>294,563</u> | <u>294,563</u> |
| Total Financial Instruments | <u>-</u> | <u>31,700,398</u> | <u>31,700,398</u> |
| 30 June 2011 | | | |
| | Level 1 R | Level 2 R | Level 3 R |
| | | | Total R |
| FINANCIAL ASSETS | | | |
| Financial Instruments at Fair Value: | | | |
| Notice Deposits | - | 405,486 | 405,486 |
| Bank Balances and Cash | - | 1,099,591 | 1,099,591 |
| Total Financial Assets | <u>-</u> | <u>1,505,077</u> | <u>1,505,077</u> |
| FINANCIAL LIABILITIES | | | |
| Financial Instruments at Fair Value: | | | |
| Annuity Loans | - | 83,063 | 83,063 |
| Finance Lease Liabilities | - | 462,952 | 462,952 |
| Total Financial Liabilities | <u>-</u> | <u>546,014</u> | <u>546,014</u> |
| Total Financial Instruments | <u>-</u> | <u>959,062</u> | <u>959,062</u> |

43.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 15, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 18 and the Statement of Changes in Net Assets.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 20 and the Statement of Changes in Net Assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.

The gearing ratio at the year-end was as follows:

| | | |
|---------------------------------|--------------------|--------------------|
| Debt | 546,132 | 1,876,953 |
| Cash and Cash Equivalents | 11,619,946 | 1,099,591 |
| Net Debt | <u>12,166,078</u> | <u>2,976,544</u> |
| Equity | <u>458,561,482</u> | <u>433,807,860</u> |
| Net debt to equity ratio | <u>2.65%</u> | <u>0.69%</u> |

Debt is defined as Long- and Short-term Liabilities.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

43.4 Financial Risk Management Objectives

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Risk management policies and systems are reviewed regularly to reflect changes to market conditions and the municipality's activities, and compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Further quantitative disclosures are included throughout these Annual Financial Statements.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | |
|-------------|-------------|
| 2012 | 2011 |
| R | R |

43 FINANCIAL INSTRUMENTS (continued)

43.5 Significant Risks

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit Risk

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity Risk

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 47.8 and 47.9 to the Annual Financial Statements.

43.6 Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 47.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

43.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

43.6.2 Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

43.7 Credit Risk Management

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 43 FINANCIAL INSTRUMENTS (continued) | | |
| <u>Trade and Other Receivables</u> | | |
| Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on-going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them. | | |
| The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures: | | |
| <ul style="list-style-type: none"> • The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property; • A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount; • The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA; • The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually; • Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters. | | |
| There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area. | | |
| The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables. | | |
| Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable. | | |
| Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained: | | |
| Long-term Receivables | | 3,516 |
| Consumer Debtors | 47,449,285 | 39,619,314 |
| Other Debtors | 4,325,889 | 3,970,983 |
| Bank, Cash and Cash Equivalents | 31,994,961 | 1,506,197 |
| Maximum Credit and Interest Risk Exposure | 83,770,135 | 45,100,009 |

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

43 FINANCIAL INSTRUMENTS (Continued)

43.8 Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 43 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| Description | Note ref in AFS | Average effective Interest Rate | Total | 6 Months or less | 6 - 12 Months | 1 - 2 Years | 2 - 5 Years | More than 5 Years |
|---------------------------------|-----------------------|---------------------------------------|-------------------|---------------------|------------------|----------------|----------------|----------------------|
| 30 June 2012 | # | % | R | R | R | R | | R |
| Non-interest Bearing | | 0.00% | 13,479,949 | 13,479,949 | - | - | - | - |
| - Creditors | | | 12,873,461 | 12,873,461 | - | - | - | - |
| - Consumer Deposits | | | 606,488 | 606,488 | | | | |
| Fixed Interest Rate Instruments | | | 83,180 | 83,180 | - | - | - | - |
| - Sanlam | | 15.00% | - | - | - | - | - | - |
| - DBSA Water | | 5.00% | - | - | - | - | - | - |
| - DBSA Vehicles | | 15.88% | 83,180 | 83,180 | | | | |
| | | | 13,563,130 | 13,563,130 | - | - | - | - |
| 30 June 2011 | | | | | | | | |
| Non-interest Bearing | | 0.00% | 6,587,750 | 6,587,750 | - | - | - | - |
| - Creditors | | | 6,031,271 | 6,031,271 | - | - | - | - |
| - Consumer Deposits | | | 556,479 | 556,479 | | | | |
| Fixed Interest Rate Instruments | | | 1,198,566 | 1,115,672 | 82,894 | - | - | - |
| - Sanlam | | 15.00% | 97,237 | 97,237 | - | - | - | - |
| - DBSA Water | | 5.00% | 154,514 | 71,620 | 82,894 | - | - | - |
| - DBSA Vehicles | | 15.88% | 946,815 | 946,815 | | | | |
| | | | 7,786,316 | 7,703,422 | 82,894 | - | - | - |
| | | | | | | | | |

43.9 Other Price Risks

The municipality is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The municipality does not actively trade these investments. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| 2012 | 2011 |
|------|------|
| R | R |

44 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R16,7 million (2010: R14,2 million) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

DEFINED BENEFIT SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 28 February 2008.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R1 483, 786 381 (30 June 2009: R1 341, 935 205) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the investment reserve of the fund amounted to R63,977 (30 June 2010: R190,464) million, with a funding level of 98,1% (30 June 2010: 100,0%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The statutory valuation performed as at 30 June 2011 revealed that the investment reserve of the fund amounted to R63,977 (30 June 2010: R190,464) million, with a funding level of 98,1% (30 June 2010: 100,0%). The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

SALA Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the assets of the fund amounted to R7 110,3 (30 June 2009: R6 303,7) million, with funding levels of 96,0% (30 June 2009: 96,0%). The contribution rate paid by the members (8,6%) and Council (20,78%) is sufficient to fund the benefits accruing from the fund in the future.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

2012
R
2011
R

45 RELATED PARTY TRANSACTIONS

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

45.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

| Name of Related Person | Designation | Description of Related Party Relationship |
|------------------------|------------------|-------------------------------------------------------------------------------------------------------------------|
| AC Mpela | Municipal Manger | Director of Mthombo Sediba Development Agency (Article 21) and Member of Pride and Grace Trading and Projects cc |
| P Mosompha | Manger | Member of World Focus 684 cc |
| NS. Ntshudu | Official (SCM) | Member of Ntsukaze Trading cc |
| NL. Hermans | Councillor | Member of Woman in Property and Facilities Management cc |
| SG Mlenzana | Councillor | Member of Amachule Akwantu Art and Craft |
| S Ngalimani | Councillor | Member of Vukuzenzele Tuck Shop cc |
| MA Sestile | Councillor | Member of Kwazamuxolo Building and Maintenance Construction cc |

45.2 Services rendered to Related Parties

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

| | Rates Charges R | Service Charges R | Sundry Charges R | Outstanding Balances R |
|--------------------------------------------|-----------------------|-------------------------|------------------------|------------------------------|
| For the Year ended 30 June 2012 | | | | |
| Councillors | 7,330 | 59,015 | 3,977 | 70,323 |
| Municipal Manager and Section 57 Personnel | 12,455 | 45,514 | 115 | 58,084 |
| Total Services | 19,785 | 104,530 | 4,092 | 128,406 |
| For the Year ended 30 June 2011 | | | | |
| Councillors | 8,313 | 49,989 | 8,599 | 66,901 |
| Municipal Manager and Section 57 Personnel | 12,103 | 41,115 | 98 | 53,316 |
| Total Services | 20,416 | 91,105 | 8,697 | 120,217 |

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

45.3 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

45.4 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Notes 25 and 26 respectively, to the Annual Financial Statements.

45.5 Purchases from Related Parties

The municipality did not buy goods from any companies which can be considered to be Related Parties.

UMSOBOMVU LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

| | 2012 R | 2011 R |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| 46 CONTINGENT LIABILITIES | | |
| 46.1 Guarantees: | 6,000 | 6,000 |
| (i) ABSA Bank: A bank guarantee in the amount of R6 000 was issued in favour of Eskom | 6,000 | 6,000 |
| (ii) Eskom: The municipality issued a bank guarantee in favour of Eskom to increase its electricity demand to 40 MVA to be able to meet the increasing demand for electricity supply from consumers. | - | - |
| 46.2 Court Proceedings: | 6,134,339 | 6,160,000 |
| (i) Komanisie Development is claiming loss of income and stock on a housing project to the amount of R8,300,000 | 6,000,000 | 6,000,000 |
| (ii) Eviction of respondent. This case was resolved and no further possible liability exist | - | 60,000 |
| (iii) TMT is claiming R100 000 in terms of a speeding fine project. | 100,000 | 100,000 |
| (iv) P. Manzi. His contract was not renewed and the case is currently in arbitration. There is a possibility that one (1) months salary might be paid to P. Manzi | 34,339 | - |
| 46.3 Landfill sites: | 10,000,000 | 10,000,000 |
| (i) In terms of section 68(1) of the Waste Management Act the municipality might receive a penalty of R10 million for not having a license to operate at the Norvalspont site. | | |
| In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made. | | |
| 47 CONTINGENT ASSETS | | |
| Mr. Percy Mugwedi was charged with fraud for the estimate amount of R100 000 at the beginning of the 2012/2013 financial year, but relates to the current financial year. An investigation is still underway. | 100,000 | |
| 48 IN-KIND DONATIONS AND ASSISTANCE | | |
| The municipality did not receive any In-kind Donations and Assistance during the year under review. | | |
| 49 PRIVATE PUBLIC PARTNERSHIPS | | |
| The municipality was not a party to any Private Public Partnerships during the year under review. | | |
| 50 EVENTS AFTER THE REPORTING DATE | | |
| No events having financial implications requiring disclosure occurred subsequent to 30 June 2012. | | |
| 51 COMPARATIVE FIGURES | | |
| The comparative figures were restated as a result of the effect of Prior Period Errors (Note 34). | | |

APPENDIX A
UMSOBOMVU LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012

| Details | Original Loan Amount | Interest Rate | Loan Number | Redeemable | Balance at 30 June 2011 | Redeemed/ Written Off during Period | Interest Charged during period | Redeemed/ Written Off during Period | Balance at 30 June 2012 |
|----------------------------------|----------------------------|------------------|----------------|------------|----------------------------|-------------------------------------------|--------------------------------------|-------------------------------------------|----------------------------|
| ANNUITY LOANS | R | | | | R | R | | | R |
| Development Bank of South Africa | 4,000,000 | 5.00% | 61000335 | 31/06/2012 | 946,984 | (81,150) | 26,121 | (891,955) | - |
| DBSA | 574,533 | 15.88% | 61001728 | 31/06/2013 | 154,514 | (46,642) | 21,951 | (46,642) | 83,180 |
| Total Annuity Loans | 4,574,533 | | | | 1,101,498 | (127,792) | 48,072 | (938,598) | 83,180 |
| OTHER LOANS | | | | | | | | | |
| SANLAM | - | 15.00% | NPT112F1 | 31/01/2012 | 92,315 | - | 4,922 | (97,237) | - |
| Total Other Loans | - | | | | 92,315 | - | | | - |
| TOTAL EXTERNAL LOANS | 4,574,533 | | | | 1,193,813 | (127,792) | 48,072 | (938,598) | 83,180 |

ANNUITY LOANS:

DBSA:

Structured unsecured 5 year loan for purchasing of new Service Delivery Vehicles. Original loan capital of R4 000 000 is repayable bi-annually in fixed instalments of capital and fixed rate interest.

DBSA:

Structured unsecured 25 year loan for upgarding of the water systems. Original loan capital of R574 533 is repayable bi-annually in fixed instalments of capital and fixed rate

APPENDIX A does not form part of the Annual Financial Statetements.

APPENDIX B
UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Description | Historical Cost | | | | Cost / Revaluation | | | |
|---------------------------------------------------------------------------|--------------------|-------------------|------------------|--------------------|--------------------|-------------------|------------------|--------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance |
| | R | R | R | R | R | R | R | R |
| Land and Buildings | | | | | | | | |
| Land | 30,774,057 | - | (396,200) | 30,377,857 | 30,774,057 | - | (396,200) | 30,377,857 |
| Buildings | 5,777,848 | 12,600 | - | 5,790,448 | 5,777,848 | 12,600 | - | 5,790,448 |
| | 36,551,905 | 12,600 | (396,200) | 36,168,305 | 36,551,905 | 12,600 | (396,200) | 36,168,305 |
| Infrastructure | | | | | | | | |
| <i>Electricity:</i> | | | | | | | | |
| Electricity Network | 57,906,194 | 2,398,036 | - | 60,304,230 | 57,906,194 | 2,398,036 | - | 60,304,230 |
| <i>Roads:</i> | | | | | | | | |
| Roads Network | 313,904,339 | - | - | 313,904,339 | 313,904,339 | - | - | 313,904,339 |
| <i>Sewerage:</i> | | | | | | | | |
| Sewerage Network | 83,859,697 | 13,433,032 | - | 97,292,728 | 83,859,697 | 13,433,032 | - | 97,292,728 |
| <i>Sanitation:</i> | | | | | | | | |
| Solid Waste Disposal | 6,860,399 | - | - | 6,860,399 | 6,860,399 | - | - | 6,860,399 |
| <i>Water:</i> | | | | | | | | |
| Water Network | 290,628,372 | 27,805,607 | - | 318,433,979 | 290,628,372 | 27,805,607 | - | 318,433,979 |
| | 753,159,001 | 43,636,675 | - | 796,795,675 | 753,159,001 | 43,636,675 | - | 796,795,675 |
| Community Assets | | | | | | | | |
| Buildings | 9,627,056 | 352,634 | - | 9,979,690 | 9,627,056 | 352,634 | - | 9,979,690 |
| Land | 2,099,651 | - | - | 2,099,651 | 2,099,651 | - | - | 2,099,651 |
| | 11,726,707 | 352,634 | - | 12,079,341 | 11,726,707 | 352,634 | - | 12,079,341 |
| Other Assets | | | | | | | | |
| <i>Computer Equipment</i> | | | | | | | | |
| Computer hardware including operating systems including operating systems | 1,587,706 | 138,749 | (19,742) | 1,706,713 | 1,587,706 | 138,749 | (19,742) | 1,706,713 |
| <i>Furniture and Office Equipment:</i> | | | | | | | | |
| Air Conditioners Individual Fixed and Movable | 196,236 | 28,845 | - | 225,081 | 196,236 | 28,845 | - | 225,081 |
| Domestic and Hostel Furniture | 120,746 | - | - | 120,746 | 120,746 | - | - | 120,746 |
| Fixtures & Fittings | 135,326 | - | - | 135,326 | 135,326 | - | - | 135,326 |
| Office Equipment Including Fax Machines | 267,077 | - | (630) | 266,447 | 267,077 | - | (630) | 266,447 |
| Office Furniture | 2,964,275 | 18,351 | (4,902) | 2,977,724 | 2,964,275 | 18,351 | (4,902) | 2,977,724 |

APPENDIX B
UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| | | | | | | | | |
|---------------------------------------------------------------------------|--------------------|-------------------|------------------|--------------------|--------------------|-------------------|------------------|--------------------|
| <i>Machinery and Equipment:</i> | | | | | | | | |
| Audiovisual Equipment | 140,545 | 28,969 | (1,428) | 168,085 | 140,545 | 28,969 | (1,428) | 168,085 |
| Domestic Equipment (non kitchen appliances) | 64,268 | 7,140 | (344) | 71,064 | 64,268 | 7,140 | (344) | 71,064 |
| Electric Wire and Power Distribution Equipment (compressors / generators) | 39,155 | - | (2,800) | 36,355 | 39,155 | - | (2,800) | 36,355 |
| Fire Fighting Equipment | 28,631 | - | - | 28,631 | 28,631 | - | - | 28,631 |
| Gardening Equipment | 47,315 | - | - | 47,315 | 47,315 | - | - | 47,315 |
| Kitchen Appliances | 86,349 | 139 | (560) | 85,928 | 86,349 | 139 | (560) | 85,928 |
| Medical and Allied Equipment | 10,280 | - | (474) | 9,806 | 10,280 | - | (474) | 9,806 |
| Music Instruments | 42,304 | - | - | 42,304 | 42,304 | - | - | 42,304 |
| Pumps Plumbing Purification Sanitation and Allied Equipment | 30,998 | - | - | 30,998 | 30,998 | - | - | 30,998 |
| Radio Equipment | 31,363 | - | - | 31,363 | 31,363 | - | - | 31,363 |
| Road Construction and Maintenance Equipment | 2,410,864 | - | - | 2,410,864 | 2,410,864 | - | - | 2,410,864 |
| Survey Equipment | 3,891 | - | - | 3,891 | 3,891 | - | - | 3,891 |
| Tractors | 35,100 | - | - | 35,100 | 35,100 | - | - | 35,100 |
| Workshop Equipment and Loose Tools Fixed | 3,280 | - | - | 3,280 | 3,280 | - | - | 3,280 |
| Workshop Equipment and Loose Tools Movable | 491,850 | 113,070 | (1,383) | 603,537 | 491,850 | 113,070 | (1,383) | 603,537 |
| <i>Transport Assets:</i> | | | | | | | | |
| Bakkies | 875,162 | 122,936 | - | 998,097 | 875,162 | 122,936 | - | 998,097 |
| Emergency Vehicles | 485,167 | - | - | 485,167 | 485,167 | - | - | 485,167 |
| Motor Vehicles | 160,200 | 409,000 | - | 569,200 | 160,200 | 409,000 | - | 569,200 |
| Trailers and Accessories | 252,666 | - | - | 252,666 | 252,666 | - | - | 252,666 |
| Trucks | 1,300,428 | - | - | 1,300,428 | 1,300,428 | - | - | 1,300,428 |
| | 11,811,181 | 867,198 | (32,263) | 12,646,116 | 11,811,181 | 867,198 | (32,263) | 12,646,116 |
| Total | 813,248,794 | 44,869,107 | (428,463) | 857,689,438 | 813,248,794 | 44,869,107 | (428,463) | 857,689,438 |

UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Description | Historical Cost | | | | Cost / Revaluation | | | |
|------------------------------|------------------|-----------|-----------|------------------|--------------------|-----------|-----------|------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance |
| | R | R | R | R | R | R | R | R |
| Investment Properties | | | | | | | | |
| Land & Buildings | 1,654,811 | - | - | 1,654,811 | 1,654,811 | - | - | 1,654,811 |
| | 1,654,811 | - | - | 1,654,811 | 1,654,811 | - | - | 1,654,811 |

UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Description | Historical Cost | | | | Cost / Revaluation | | | |
|--------------------------|------------------|---------------|-----------|------------------|--------------------|---------------|-----------|------------------|
| | Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance |
| | R | R | R | R | R | R | R | R |
| Intangible Assets | | | | | | | | |
| Computer Software | 1,559,400 | 91,081 | - | 1,650,481 | 1,559,400 | 91,081 | - | 1,650,481 |
| | 1,559,400 | 91,081 | - | 1,650,481 | 1,559,400 | 91,081 | - | 1,650,481 |

| | | | | | | | | |
|-----------------------------|--------------------|-------------------|------------------|--------------------|--------------------|-------------------|------------------|--------------------|
| Total Asset Register | 816,463,004 | 44,960,188 | (428,463) | 860,994,730 | 816,463,004 | 44,960,188 | (428,463) | 860,994,730 |
|-----------------------------|--------------------|-------------------|------------------|--------------------|--------------------|-------------------|------------------|--------------------|

APPENDIX B does not form part of the Annual Financial Statements.

APPENDIX B
UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Accumulated Depreciation | | | | Accumulated Impairment | | | Accumulated Depreciation / Impairment | | | | Carrying |
|--------------------------|-------------------|-----------|--------------------|------------------------|-----------|-----------------|---------------------------------------|-------------------|-----------|--------------------|--------------------|
| Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| R | R | R | R | R | R | R | R | R | R | R | R |
| - | - | - | - | - | - | - | - | - | - | - | 30,377,857 |
| 3,177,816 | 232,030 | - | 3,409,846 | - | - | - | 3,177,816 | 232,030 | - | 3,409,846 | 2,380,602 |
| 3,177,816 | 232,030 | - | 3,409,846 | - | - | - | 3,177,816 | 232,030 | - | 3,409,846 | 32,758,459 |
| 23,960,507 | 2,784,005 | - | 26,744,512 | - | - | - | 23,960,507 | 2,784,005 | - | 26,744,512 | 33,559,717 |
| 169,783,319 | 7,544,443 | - | 177,327,762 | - | - | - | 169,783,319 | 7,544,443 | - | 177,327,762 | 136,576,577 |
| 36,739,650 | 2,498,122 | - | 39,237,773 | - | - | - | 36,739,650 | 2,498,122 | - | 39,237,773 | 58,054,955 |
| 2,469,744 | 274,416 | - | 2,744,160 | - | - | - | 2,469,744 | 274,416 | - | 2,744,160 | 4,116,240 |
| 123,385,985 | 12,351,610 | - | 135,737,595 | - | - | - | 123,385,985 | 12,351,610 | - | 135,737,595 | 182,696,384 |
| 356,339,206 | 25,452,597 | - | 381,791,802 | - | - | - | 356,339,206 | 25,452,597 | - | 381,791,802 | 415,003,873 |
| 2,920,767 | 263,625 | - | 3,184,392 | - | - | - | 2,920,767 | 263,625 | - | 3,184,392 | 6,795,298 |
| - | - | - | - | - | - | - | - | - | - | - | 2,099,651 |
| 2,920,767 | 263,625 | - | 3,184,392 | - | - | - | 2,920,767 | 263,625 | - | 3,184,392 | 8,894,949 |
| 628,127 | 382,347 | (12,457) | 998,017 | - | 1,298 | 1,298 | 628,127 | 383,645 | (12,457) | 999,315 | 707,398 |
| 60,202 | 52,972 | - | 113,174 | - | - | - | 60,202 | 52,972 | - | 113,174 | 111,907 |
| 36,473 | 11,190 | - | 47,663 | - | - | - | 36,473 | 11,190 | - | 47,663 | 73,082 |
| 38,897 | 24,359 | - | 63,255 | - | - | - | 38,897 | 24,359 | - | 63,255 | 72,071 |
| 65,125 | 47,894 | (284) | 112,736 | - | 3,420 | 3,420 | 65,125 | 51,314 | (284) | 116,156 | 150,291 |
| 951,482 | 527,852 | (2,537) | 1,476,797 | - | 9,071 | 9,071 | 951,482 | 536,923 | (2,537) | 1,485,868 | 1,491,856 |

APPENDIX B
UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| | | | | | | | | | | | |
|-------------|------------|----------|-------------|---|---------|---------|-------------|------------|----------|-------------|-------------|
| 38,030 | 27,828 | (643) | 65,215 | - | - | - | 38,030 | 27,828 | (643) | 65,215 | 102,870 |
| 21,925 | 16,029 | (257) | 37,697 | - | 383 | 383 | 21,925 | 16,411 | (257) | 38,080 | 32,984 |
| 14,657 | 6,488 | (1,260) | 19,885 | - | - | - | 14,657 | 6,488 | (1,260) | 19,885 | 16,470 |
| 7,320 | 8,589 | - | 15,909 | - | - | - | 7,320 | 8,589 | - | 15,909 | 12,722 |
| 26,140 | 7,788 | - | 33,928 | - | - | - | 26,140 | 7,788 | - | 33,928 | 13,387 |
| 35,618 | 13,584 | (252) | 48,950 | - | 58 | 58 | 35,618 | 13,642 | (252) | 49,008 | 36,920 |
| 2,829 | 10,628 | (213) | 13,244 | - | - | - | 2,829 | 10,628 | (213) | 13,244 | (3,438) |
| 20,940 | 3,807 | - | 24,748 | - | 8,778 | 8,778 | 20,940 | 12,585 | - | 33,526 | 8,778 |
| 8,370 | 5,580 | - | 13,949 | - | - | - | 8,370 | 5,580 | - | 13,949 | 17,049 |
| 8,468 | 5,645 | - | 14,113 | - | - | - | 8,468 | 5,645 | - | 14,113 | 17,250 |
| 392,017 | 227,339 | - | 619,356 | - | - | - | 392,017 | 227,339 | - | 619,356 | 1,791,508 |
| 1,051 | 700 | - | 1,751 | - | - | - | 1,051 | 700 | - | 1,751 | 2,140 |
| 19,112 | 5,546 | - | 24,658 | - | - | - | 19,112 | 5,546 | - | 24,658 | 10,443 |
| 1,255 | 590 | - | 1,845 | - | - | - | 1,255 | 590 | - | 1,845 | 1,435 |
| 139,294 | 147,347 | (951) | 285,690 | - | - | - | 139,294 | 147,347 | (951) | 285,690 | 317,847 |
| 194,082 | 86,773 | - | 280,855 | - | 37,268 | 37,268 | 194,082 | 124,041 | - | 318,123 | 679,974 |
| 97,950 | 46,576 | - | 144,526 | - | - | - | 97,950 | 46,576 | - | 144,526 | 340,641 |
| 26,691 | 43,764 | - | 70,455 | - | - | - | 26,691 | 43,764 | - | 70,455 | 498,745 |
| 48,437 | 24,256 | - | 72,693 | - | - | - | 48,437 | 24,256 | - | 72,693 | 179,973 |
| 267,957 | 113,466 | - | 381,423 | - | 158,289 | 158,289 | 267,957 | 271,755 | - | 539,712 | 760,716 |
| 3,152,448 | 1,848,938 | (18,854) | 4,982,532 | - | 218,565 | 218,565 | 3,152,448 | 2,067,503 | (18,854) | 5,201,097 | 7,445,020 |
| 365,590,237 | 27,797,190 | (18,854) | 393,368,573 | - | 218,565 | 218,565 | 365,590,237 | 28,015,755 | (18,854) | 393,587,137 | 464,102,301 |

UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Accumulated Depreciation | | | | Accumulated Impairment | | | Accumulated Depreciation / Impairment | | | | Carrying |
|--------------------------|-----------|-----------|-----------------|------------------------|-----------|-----------------|---------------------------------------|-----------|-----------|-----------------|-----------|
| Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| R | R | R | R | R | R | R | R | R | R | R | R |
| - | - | - | - | - | - | - | - | - | - | - | 1,654,811 |
| - | - | - | - | - | - | - | - | - | - | - | 1,654,811 |

UMSOBOMVU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2012

| Accumulated Depreciation | | | | Accumulated Impairment | | | Accumulated Depreciation / Impairment | | | | Carrying |
|--------------------------|------------|-----------|-----------------|------------------------|-----------|-----------------|---------------------------------------|------------|-----------|-----------------|-------------|
| Opening Balance | Additions | Disposals | Closing Balance | Opening Balance | Additions | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | Value |
| R | R | R | R | R | R | R | R | R | R | R | R |
| 1,144,122 | 250,390 | - | 1,394,511 | - | - | - | 1,144,122 | 250,390 | - | 1,394,511 | 255,970 |
| 1,144,122 | 250,390 | - | 1,394,511 | - | - | - | 1,144,122 | 250,390 | - | 1,394,511 | 255,970 |
| 366,734,358 | 28,047,580 | (18,854) | 394,763,084 | - | 218,565 | 218,565 | 366,734,358 | 28,266,144 | (18,854) | 394,981,649 | 466,013,081 |

APPENDIX C
UMSOBOMVU LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2012

| Description | Cost / Revaluation | | | | | | Accumulated Depreciation / Impairment | | | | Carrying Value |
|-------------------------------|--------------------|------------------|--------------------|-----------------|------------------|--------------------|---------------------------------------|-------------------|-----------------|--------------------|--------------------|
| | Opening Balance | Additions | Under Construction | Disposals | Transfers | Closing Balance | Opening Balance | Additions | Disposals | Closing Balance | |
| | R | R | R | R | R | R | R | R | R | R | R |
| Executive and Council | 1,682,218 | 476,731 | - | (11,813) | - | 2,147,137 | 626,737 | 351,730 | (6,540) | 971,927 | 1,175,210 |
| Finance and Administration | 1,326,446 | 117,003 | - | (3,947) | - | 1,439,502 | 462,952 | 293,080 | (2,296) | 753,737 | 685,765 |
| Planning and Development | 5,870,893 | 55,309 | - | (12,169) | - | 5,914,033 | 1,265,577 | 824,932 | (6,912) | 2,083,597 | 3,830,436 |
| Community and Social Services | 48,278,613 | 67,530 | 297,704 | - | (396,200) | 48,247,647 | 6,098,583 | 495,656 | - | 6,594,239 | 41,653,408 |
| Waste Management | 9,792,023 | 218,155 | - | (4,334) | - | 10,005,844 | 3,266,925 | 872,183 | (3,106) | 4,136,002 | 5,869,842 |
| Roads and Transport | 397,764,036 | 414,646 | 13,018,386 | - | - | 411,197,067 | 206,522,970 | 10,042,565 | - | 216,565,535 | 194,631,532 |
| Water | 57,906,194 | 2,398,036 | - | - | - | 60,304,230 | 23,960,507 | 2,784,005 | - | 26,744,512 | 33,559,717 |
| Electricity | 290,628,372 | 153,156 | 27,652,451 | - | - | 318,433,979 | 123,385,985 | 12,351,611 | - | 135,737,596 | 182,696,383 |
| Total | 813,248,794 | 3,900,566 | 40,968,541 | (32,263) | (396,200) | 857,689,438 | 365,590,237 | 28,015,762 | (18,854) | 393,587,145 | 464,102,294 |
| | | | | | | | | | | | |

APPENDIX C does not form part of the Annual Financial Statements.

| APPENDIX D UMSOBOMVU LOCAL MUNICIPALITY SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012 | | | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------|---------------------------------|-------------------------------|-------------------------------|--------------------------|----------------------------|-------------------------------|---------------------------------|-------------------------------|
| 2011 Actual Income | 2011 Budgeted Income | 2011 Actual Expenditure | 2011 Budgeted Expenditure | 2011 Surplus/ (Deficit) | Description | 2012 Actual Income | 2012 Budgeted Income | 2012 Actual Expenditure | 2012 Budgeted Expenditure | 2012 Surplus/ (Deficit) |
| R | R | R | R | R | | R | R | R | R | R |
| 23,637,479 | 23,649,478 | 15,184,513 | 13,844,470 | 8,452,966 | Executive and Council | 26,095,000 | 27,001,648 | 14,123,778 | 15,252,539 | 11,971,222 |
| 26,575,396 | 6,598,365 | 13,991,991 | 13,286,028 | 12,583,405 | Finance and Administration | 8,463,854 | 7,475,407 | 19,463,510 | 14,765,951 | (10,999,656) |
| 52,848 | - | 2,647,754 | - | (2,594,906) | Planning and Development | 36,484 | 69,237 | 11,348,202 | 6,268,542 | (11,311,718) |
| - | - | - | - | - | LED and IDP | 200 | - | 331,833 | 309,392 | (331,633) |
| 393,085 | 4,719,241 | 1,404,428 | 5,329,586 | (1,011,343) | Community and Social Services | 548,288 | 551,349 | 5,395,598 | 1,856,607 | (4,847,310) |
| 1,619,834 | - | 2,003,998 | 374,918 | (384,164) | Housing | 3,080,688 | - | 2,076,733 | 423,660 | 1,003,955 |
| 3,912,489 | 2,270,513 | 1,461,509 | 1,612,067 | 2,450,980 | Public Safety | 5,799,294 | 2,131,541 | 5,370,274 | 1,842,773 | 429,020 |
| - | - | 576,170 | 648,431 | (576,170) | Sport and Recreation | - | - | 1,153,405 | 1,187,892 | (1,153,405) |
| 9,184,994 | 5,009,777 | 34,181,682 | 3,746,393 | (24,996,688) | Waste Management | 27,179,920 | 10,177,026 | 8,051,804 | 8,308,734 | 19,128,116 |
| 19,647,222 | 27,673,718 | 6,861,862 | 8,041,668 | 12,785,360 | Water | 38,558,590 | 7,096,824 | 19,564,301 | 6,691,137 | 18,994,289 |
| 14,408,299 | 19,174,347 | 18,193,980 | 13,421,064 | (3,785,681) | Electricity | 19,933,185 | 18,485,173 | 18,062,443 | 16,079,427 | 1,870,742 |
| | 35,151 | | 5,896,190 | - | Other | | - | | | |
| 99,431,645 | 89,130,590 | 96,507,886 | 66,200,815 | 2,923,759 | Sub-Total | 129,695,503 | 72,988,205 | 104,941,881 | 72,986,654 | 24,753,622 |
| | | | | | | | | | | |
| 99,431,645 | 89,130,590 | 96,507,886 | 66,200,815 | 2,923,759 | Total | 129,695,503 | 72,988,205 | 104,941,881 | 72,986,654 | 24,753,622 |
| | | | | | | | | | | |
| | | | | | | | | | | |

APPENDIX D does not form part of the Annual Financial Statements.

APPENDIX E(1)
UMSOBOMVU LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2012

| Description | 2011/12 Actual | 2011/12 Budget | 2011/12 Variance | 2011/12 Variance | Explanation of Significant Variances greater than 10% versus Budget |
|-----------------------------------------------------------|--------------------|-------------------|---------------------|---------------------|--------------------------------------------------------------------------------------------------------|
| REVENUE | R | R | R | % | |
| Property Rates | 4,145,836 | 3,915,530 | 230,306 | 5.88 | |
| Property Rates - Penalties imposed and collection charges | 284,987 | 358,934 | (73,947) | (20.60) | Revenue budgeted for under Interest Earned - Outstanding debtors |
| Fines | 5,364,720 | 1,877,040 | 3,487,680 | 185.81 | Fines are processed correctly |
| Licences and Permits | 435,146 | 248,230 | 186,916 | 75.30 | Includes amount for Agency fees that was not budgeted as was not correctly allocated |
| Government Grants and Subsidies | 75,234,791 | 29,445,250 | 45,789,541 | 155.51 | New allocations for the new year as well as more received and spend. Did not budget for capital grants |
| Service Charges | 35,052,648 | 35,416,141 | (363,493) | (1.03) | |
| Rental of Facilities and Equipment | 379,062 | 138,112 | 240,950 | 174.46 | |
| Interest Earned - External investments | 419,278 | 18,395 | 400,883 | 2,179.30 | Did not budget for investment of R20 000 000 received from Grants |
| Interest Earned - Outstanding debtors | 1,431,320 | 1,405,503 | 25,817 | 1.84 | |
| Other Income | 5,531,064 | 165,070 | 5,365,994 | 3,250.74 | VAT own income on Grants spend not budgeted for |
| Other Gains and Losses | 1,416,652 | - | 1,416,652 | 100.00 | Did not budget for the Fair Value adj. On Investment Properties |
| Total Revenue | 129,695,503 | 72,988,205 | 56,707,298 | 77.69 | |
| EXPENDITURE | | | | | |
| Employee Related Costs | 27,209,116 | 27,679,125 | (470,009) | (1.70) | |
| Remuneration of Councillors | 2,413,066 | 2,187,344 | 225,722 | 10.32 | |
| Depreciation | 28,038,803 | 1,136,802 | 26,902,001 | 2,366.46 | Decrease in depreciation due to implementation of GRAP 16, 17 and 102 |
| Impairment Losses | 2,021,025 | 3,693,973 | (1,672,948) | (45.29) | Increased provision due to detrition of debtor payment rate |
| Repairs and Maintenance | 2,417,881 | 2,346,091 | 71,790 | 3.06 | |
| Interest Paid | 127,021 | 1,066,732 | (939,711) | (88.09) | Did not take in consideration that the loans are almost fully redeemed |
| Bulk Purchases | 14,100,800 | 13,397,849 | 702,951 | 5.25 | |
| Contracted Services | 3,589,523 | 2,842,000 | 747,523 | 26.30 | Reallocation was done to correctly classify expenditure |
| General Expenses | 24,617,606 | 18,636,738 | 5,980,868 | 32.09 | Difference less than 10% including grants and repairs and maintenance |
| Loss on disposal of Property, Plant and Equipment | 407,042 | - | 407,042 | 100.00 | Loss on Insurance claims |
| Total Expenditure | 104,941,881 | 72,986,654 | 31,955,227 | 43.78 | |
| NET SURPLUS / (DEFICIT) FOR THE YEAR | 24,753,622 | 1,551 | 24,752,071 | | |

APPENDIX E(1)
UMSOBOMVU LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 June 2011

| Description | 2010/11 Actual | 2010/11 Budget | 2010/11 Variance | 2010/11 Variance | Explanation of Significant Variances greater than 10% versus Budget |
|-----------------------------------------------------------|-------------------|-------------------|---------------------|---------------------|---------------------------------------------------------------------------------|
| REVENUE | R | R | R | % | |
| Property Rates | 3,812,317 | 3,631,260 | 181,057 | 4.99 | |
| Property Rates - Penalties imposed and collection charges | 558,582 | 654,504 | (95,922) | (14.66) | Revenue budgeted for under Interest Earned - Outstanding debtors |
| Fines | 1,312,853 | 2,008,281 | (695,428) | (34.63) | Under performance of the Traffic Department |
| Licences and Permits | 373,256 | 268,450 | 104,806 | 39.04 | Decrease due to 2009 moneys collected in 2010 on which the budget was based |
| Government Grants and Subsidies | 57,434,590 | 49,356,478 | 8,078,112 | 16.37 | Capital grant receipts now excluded in performance statement in terms of IAS 20 |
| Service Charges | 30,077,689 | 31,644,855 | (1,567,166) | (4.95) | |
| Rental of Facilities and Equipment | 407,712 | 37,962 | 369,750 | 974.00 | Good performance by relevant departments |
| Interest Earned - External investments | 55,847 | 34,000 | 21,847 | 64.26 | More funds available for investment as a result of unspent grant moneys |
| Interest Earned - Outstanding debtors | 1,258,321 | 1,494,800 | (236,479) | (15.82) | Decrease due to improved debt collection |
| Other Income | 4,140,478 | - | 4,140,478 | 100.00 | VAT income recognised on grants |
| Total Revenue | 99,431,645 | 89,130,590 | 10,301,055 | 11.56 | |
| EXPENDITURE | | | | | |
| Employee Related Costs | 25,041,119 | 24,413,237 | 627,882 | 2.57 | |
| Remuneration of Councillors | 2,217,677 | 2,457,040 | (239,363) | (9.74) | |
| Depreciation | 26,720,777 | - | 26,720,777 | 100.00 | Decrease in depreciation due to implementation of GRAP 16, 17 and 102 |
| Impairment Losses | 6,007,905 | 5,100,172 | 907,733 | 17.80 | Decrease due to improved debt collection |
| Repairs and Maintenance | 2,428,633 | - | 2,428,633 | 100.00 | Budget amount included in General expenses |
| Interest Paid | 202,797 | 1,572,328 | (1,369,531) | (87.10) | Capital redemption on loans and minimum overdraft facility |
| Bulk Purchases | 11,011,013 | 10,619,220 | 391,793 | 3.69 | |
| Contracted Services | 4,404,688 | 673,000 | 3,731,688 | 554.49 | Reallocation was done to correctly classify expenditure |
| General Expenses | 18,473,277 | 21,365,818 | (2,892,541) | (13.54) | Difference less than 10% including grants and repairs and maintenance |
| Total Expenditure | 96,507,886 | 66,200,815 | 30,307,071 | 45.78 | |
| NET SURPLUS / (DEFICIT) FOR THE YEAR | 2,923,759 | 22,929,775 | (20,006,016) | | |

APPENDIX E(1) does not form part of the Annual Financial Statements.

| <p style="text-align: center;">APPENDIX F UMSOBOMVU LOCAL MUNICIPALITY DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003</p> | | | | | | | | | | | | | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------|-------------------|-------------------|------------------|--------------------|-----------------------|---------------------|---------------------|---------------------|---------------------|-----------------------------------------|-----------------------------------------|---------------------------|---------------------------|
| Grants and Subsidies Received | | | | | | | | | | | | | | | |
| Name of Grant | Name of Organ of State or Municipal Entity | Quarterly Receipts | | | | | Quarterly Expenditure | | | | | Grants and Subsidies Delayed / Withheld | Reason for Delay / Withholding of Funds | Compliance to Revenue Act | Reason for Non-compliance |
| | | Sept | Dec | March | June | Total | Sept | Dec | March | June | Total | | | | |
| Equitable Share | Dept of Cooperative Governance and Traditional Affairs (COGTA) | 10,873,000 | 4,836,000 | 10,386,000 | - | 26,095,000 | (10,873,000) | (4,836,000) | (10,386,000) | - | (26,095,000) | N/a | N/a | Yes | N/a |
| Financial Management Grant (FMG) | National Treasury | 1,450,000 | - | - | - | 1,450,000 | (866,210) | (78,755) | (819,839) | (103,296) | (1,868,099) | N/a | N/a | Yes | N/a |
| Municipal Systems Improvement Grant (MSIG) | Dept of Cooperative Governance and Traditional Affairs (COGTA) | 790,000 | - | - | - | 790,000 | (28,500) | (124,992) | - | (225,072) | (378,564) | N/a | N/a | Yes | N/a |
| Library Development Grant | Dept of Sports and Recreation | 522,000 | - | - | - | 522,000 | - | - | - | (176,164) | (176,164) | N/a | N/a | N/a | N/a |
| Municipal Infrastructure Grant (MIG) | Provincial and Local Government | 4,200,000 | 9,700 | 7,565,000 | - | 11,774,700 | (472,696) | - | (71,042) | (4,035,353) | (4,579,091) | N/a | N/a | Yes | N/a |
| Integrated National Electrification Programme (Municipal) Grant | Minerals & Energy | 780,000 | 390,000 | - | - | 1,170,000 | (1,395,789) | (986,147) | - | (269,305) | (2,651,241) | N/a | N/a | N/a | N/a |
| Energy, Efficiency and Demand Side Management Grant | Minerals & Energy | - | 10,000,000 | 10,000,000 | - | 20,000,000 | - | - | - | (67,602) | (67,602) | N/a | N/a | N/a | N/a |
| Regional Bulk Infrastructure Grant | Water Affairs and Forestry | 9,018,346 | 11,255,941 | 11,497,901 | 6,130,952 | 37,903,140 | (8,678,537) | (6,754,582) | (5,385,716) | (21,389,940) | (42,208,775) | N/a | N/a | N/a | N/a |
| Building of new Taxi Rank | Department of Safety | 134,468 | - | - | 186,088 | 320,557 | (134,468) | - | - | (664,860) | (799,328) | N/a | N/a | N/a | N/a |
| Building of new 100 Houses | Department of Housing | 490,536 | 1,047,936 | 162,077 | - | 1,700,549 | (577,629) | (934,267) | (185,664) | - | (1,697,560) | N/a | N/a | N/a | N/a |
| Total Grants and Subsidies Received | | 28,258,351 | 27,539,577 | 39,610,978 | 6,317,040 | 101,725,946 | (23,026,829) | (13,714,742) | (16,848,261) | (26,931,592) | (80,521,424) | | | | |
| APPENDIX F does not form part of the Annual Financial Statements. | | | | | | | | | | | | | | | |